

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2006-92-WS – ORDER NO. 2008-855
DECEMBER 30, 2008

IN RE: Application of Carolina Water Service, Inc.)	ORDER APPROVING
for Adjustment of Rates and Charges for the)	SETTLEMENT
Provision of Water and Sewer Service.)	AGREEMENT

This matter comes before the Public Service Commission of South Carolina (“Commission”) by Order of the Supreme Court of South Carolina (“Court”) dated September 3, 2008, remanding this case to the Commission so that it may consider again the settlement agreement previously presented in this docket.

Carolina Water Service, Inc. (“CWS” or the “Company”) is a Delaware corporation, authorized to do business in the State of South Carolina, and provides water and sewer service to the public for compensation in certain areas of South Carolina pursuant to rates previously approved by the Commission in Docket No. 2004-357-W/S. CWS’s provision of utility service to its water and sewer customers in South Carolina is subject to the jurisdiction of the Commission pursuant to S.C. Code Ann. § 58-5-10, *et. seq.* (1976, as amended).

On March 28, 2006, CWS filed with the Commission an application for approval of a new schedule of rates and charges. By operation of S.C. Code Ann. § 58-4-10(B) (Supp. 2006), the South Carolina Office of Regulatory Staff (“ORS”) was a party of

record in the application proceeding. No other person or entity intervened or was otherwise recognized as a party of record.

CWS and ORS arrived at a settlement, which was submitted to the Commission on August 30, 2006 (“Settlement Agreement”). A hearing was held on Thursday, September 7, 2006, during which the parties presented the Settlement Agreement and the Commission posed certain questions regarding the Company’s operations and customer service. Citing the parties’ failure to answer its questions or otherwise address its concerns, the Commission rejected the parties’ Settlement Agreement and issued Order No. 2006-543 to that effect and denied the application for rate relief on October 2, 2006. CWS and ORS filed petitions for rehearing of this order pursuant to S.C. Code Ann. § 58-5-330 (Supp. 2006). On May 9, 2007, the Company filed a surety bond which the Commission approved in Order No. 2007-230 dated April 5, 2007, as required by S.C. Code Ann. § 58-5-240(D). Further, pursuant to the terms of that statute, the Company placed the full amount of the rates set forth in the Settlement Agreement into effect under bond, pending the outcome of its appeal. The Commission voted to deny both of the petitions for rehearing, and on November 19, 2007, issued Order No. 2007-140 denying the parties’ petitions for reconsideration.¹ The Commission’s decisions were thereafter appealed to the Court.

On June 27, 2008, the Court granted the ORS’s motion to withdraw its appeal. On September 3, 2008, the Court granted CWS’s and the ORS’s joint motion to hold the appeal of CWS in abeyance and remanded this matter so that the Commission could hold

¹ A more detailed procedural history of this case is set forth in the Commission’s Order No. 2007-140 of November 19, 2007.

such additional hearings as it deemed necessary and reconsider its determination to reject the August 30, 2006 Settlement Agreement. The Court's order provided that if the Commission were to approve the Settlement Agreement, the appeal would be mooted, and if the Commission were to reject the Settlement Agreement or fail to rule on the matter by December 31, 2008, CWS's appeal would be reinstated.

The Commission held a hearing on October 1, 2008, at the Commission's offices located at 101 Executive Center Drive, Columbia, South Carolina. CWS was represented by Mitchell Willoughby, Esquire, and John M.S. Hoefer, Esquire. ORS was represented by Nanette S. Edwards, Esquire, and Shannon Bowyer Hudson, Esquire. CWS presented the testimony of Steven M. Lubertozzi and Bruce T. Haas and ORS presented the testimony of Dawn M. Hipp and Sharon G. Scott as remand witnesses. The Commission also received testimony and information from two public witnesses: Representative Carl L. Gullick, and Donald G. Long, a member of the River Hills Community in York County, South Carolina.

At the October 1st hearing, the Company and the ORS presented witnesses who addressed each of the concerns cited by this Commission when we previously declined to approve the settlement. We also take note of the Company's stated willingness to continue providing this type of information in future proceedings. The witnesses addressed: 1) the finances of the Company's subsystems, and specifically of the River Hills subdivision, 2) the incidence of sewer backups, and the company's response to them, 3) the fairness of the Company's flat rate billing for sewerage services, 4) the

appropriateness of the Company's rate case expenses, and 5) the Company's DHEC compliance record.

The Commission had asked the Company to provide specific financial information regarding its subsystems, or to explain why such information could not be provided. This inquiry was prompted by the complaints of several customers, principally in the River Hills subdivision in York County, that they were paying unreasonably high rates in order to justify other less profitable subsystems operated by CWS. After considering the testimony on remand of Steven Lubertoizzi, the Company's Chief Financial Officer, the Commission is convinced that the Company is presently unable to compile financial information at a subsystem level without incurring significant expenses which would eventually be borne by its customers. We examined a letter from CWS to the ORS providing certain estimates regarding the finances of its River Hills operations, which was submitted by Mr. Long, a customer of River Hills, and an exhibit in which Mr. Long analyzed the Company's estimates. We also considered written testimony of Mr. Lubertoizzi that the Company submitted in response to Mr. Long's analysis. We find that the letter, which was written by the Company on the basis of estimated data, does not provide sufficiently accurate information on which we can base a decision. In light of this conclusion, we need not rule on the Company's objection to our consideration of Mr. Long's analysis, which was derived from the same unreliable data.

Mr. Lubertoizzi also testified about the hilly terrain of the River Hills service area, and how these features make the area particularly costly to serve. Lubertoizzi testified that 50 of the Company's 104 lift stations across the state are in River Hills. Mr.

Lubertoizzi's testimony suggests that customers in the River Hills would not necessarily benefit -- as some clearly believe they would -- if rates were set on a subdivision basis.

Ultimately, the Commission does not have a sufficient basis on which to conclude that customers in River Hills, or in other subdivisions served by CWS, are being treated inequitably under the Company's uniform rate structure. While the Commission does not believe that it is compelled to impose a uniform rate structure on the customers of CWS, it is not convinced that departing from a uniform rate structure is in their best interest at this time.

Sewerage backups, and the Company's response to them, were a source of concern of some customers in this case, and have been a concern in other proceedings involving water and sewerage utilities. The Commission is determined to see that regulated utilities are taking adequate measures to minimize the occurrence of these incidents and that they are adequately responding when they do occur. At the hearing on October 1st, Bruce Haas, the Company's Regional Director of Operations, provided us with details about the number of complaints of sewerage backups received by the Company during the test period and the Company's response to them. He also testified about the Company's prevention and response measures, such as periodic pressure cleaning, TV camera inspections, and smoke testing, of the Company's lines. We do not believe that there were a sufficient number of sewerage backups during the test year (41 out of 74 were determined to be the Company's responsibility) to justify denying the Settlement Agreement. We are also encouraged by the Company's continued efforts to improve its responses to sewerage backups.

At the public hearings, several of the Company's sewerage customers questioned the fairness of its flat rate billing. After considering the testimony of Mr. Lubertozi, the Commission is satisfied that it is not feasible to depart from the Company's flat rate billing method for sewerage only services at this time, because of the difficulty involved in obtaining timely and accurate data on which to base a volumetric charge. This is especially the case, since departing from the flat rate tariff would necessarily result in increased charges for some of the Company's customers. Such a change would have to be made carefully, in order to avoid unintended consequences, and even greater potential inequities than those which some customers perceive in the current flat rate structure.

The Commission previously expressed concerns that it did not have sufficient information to assess the propriety of the rate case expenses which the Company would have recovered pursuant to the Settlement Agreement. At the remand hearing, Sharon Scott, an Audit Manager with the Office of Regulatory Staff, provided a detailed accounting of the Company's rate case expenses. Specifically, she testified that no expenses were sought for the defense of an appeal that was pending at the time of the rate case, the Commission's principal concern in this matter. Based on Ms. Scott's testimony, the Commission is now satisfied that the agreed upon rate case expenses are reasonable.

The incidence and nature of a utility's DHEC violations have been viewed by the Commission as a possible indication of the quality of a company's customer service, and therefore an appropriate area of inquiry in rate cases. Dawn Hipp, the Director of the ORS's Water and Wastewater Department, provided the Commission with a detailed explanation of CWS's DHEC violations during the test year and the corrective measures

that were taken with regard to each incident. Based on Ms. Hipp's testimony, the Commission is satisfied that the Company's DHEC violations did not have an unduly negative effect on its service, especially in light of the corrective action taken.

The proposed rates and charges contained in the Settlement Agreement were explained at the hearing held on September 7, 2006. The parties of record explained that the Settlement Agreement, attached hereto as Order Exhibit 1, provides a schedule of proposed rates, terms, and conditions which they considered just and reasonable to both the Company and its customers. The Settlement Agreement specifies an agreed upon increase in annual net revenues of \$474,117 derived from a stipulated return on equity of 9.40% and a return on rate base of 7.64%, with a resultant operating margin of 9.86%. Based upon the results of the ORS's detailed audit of CWS, the record supporting the need of CWS for the rate relief, and the testimony heard at the Commission's hearing on remand on October 1, 2008, it now appears to the Commission that the Settlement Agreement provides a schedule of proposed rates, terms, and conditions that are just and reasonable.

Based upon the evidence of record in this proceeding, and giving full consideration to the additional testimony and other evidence provided during the hearing on remand, we now find that the rates agreed to by the parties, as specified in the Settlement Agreement and Exhibit G to Order Exhibit 1, are just and reasonable. Such rates should also allow CWS to continue to provide its customers with adequate water and sewer service. The Commission finds that the witnesses offered by the parties provided satisfactory explanations and evidence regarding issues which were of concern

to the Commission and either provided the requested information or explained to the Commission why the information was unavailable.

After review and careful reconsideration by this Commission of the Settlement Agreement, the evidence contained in the record of this case, and the testimony of all witnesses, the Commission concludes as a matter of law that the Settlement Agreement results in just and reasonable rates, charges and fees for water and sewer. Based on the operating revenues, income, and expenses agreed upon by the parties and as confirmed by ORS's audit, the resulting allowable operating margin for the Company is 9.86%. See S.C. Code Ann. § 58-5-240(H). Further, the revenues received by CWS from the increased rates placed into effect under bond pursuant to S.C. Code Ann. § 58-5-240(D) (Supp.2006) and Order No. 2007-230 do not exceed the revenues authorized by the Commission herein and CWS is therefore not required to issue a refund pursuant to S.C. Code Ann. § 58-5-240(D). Accordingly, CWS is released from its obligation to maintain the bond and is authorized to cancel the bond. Moreover, the surety shall be released from any and all liability in this matter.

IT IS THEREFORE ORDERED THAT:

1. The proposed rates contained in the Settlement Agreement have been entered into the record of this case without objection. We find that the schedule of rates and charges and terms and conditions of the Settlement Agreement attached hereto as Exhibit G to Order Exhibit 1, and incorporated herein by reference, are just and reasonable and will allow the Company to continue to provide its customers with adequate water and sewer services.

2. The schedule of rates and charges attached hereto as Exhibit G to Order Exhibit 1 is hereby approved.

3. A 9.40% rate of return on equity, a 7.64% return on rate base, and an operating margin of 9.86% are approved for CWS.

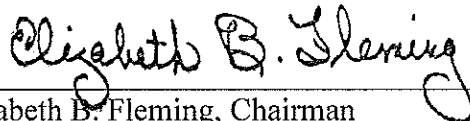
4. Because the rates and charges placed into effect under bond are consistent with the rates and charges approved herein, the revenues received from the increased rates charged pursuant to bond do not exceed the revenues allowed by the Settlement Agreement which is approved herein. Therefore, no refunds are required to be made by the Company. See S.C. Code Ann. § 58-5-240(D).

5. The surety bond heretofore filed by CWS in accordance with S.C. Code Ann. § 58-5-240(D) (Supp. 2006) and approved by the Commission in Order No. 2007-230 is no longer needed. Therefore, CWS is hereby released from its obligation to maintain the bond authorized in Order No. 2007-230 and is hereby authorized to cancel the surety bond.

6. The surety for the bond is hereby released from any and all liability in connection with the issuance of the surety bond.

7. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:



Elizabeth B. Fleming, Chairman

ATTEST:



John F. Howard, Vice Chairman

(SEAL)

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2006-92-WS

August ~~30~~³¹, 2006

Application of Carolina Water Service,)
Inc. for adjustment of rates and charges) **SETTLEMENT AGREEMENT**
for the provision of water and sewer service.)
_____)

This Settlement Agreement is made by and between the Office of Regulatory Staff ("ORS") and Carolina Water Service, Inc. ("CWS" or "the Company") (together referred to as the "Parties" or sometimes individually as "Party").

WHEREAS, the Company has prepared and filed an Application seeking an adjustment of its rates and charges and modifications to certain terms and conditions set out in its rate schedule for the provision of its water and sewer service;

WHEREAS, the above-captioned proceeding has been established by the South Carolina Public Service Commission ("Commission") pursuant to the procedure established in S.C. Code Ann. § 58-5-240 (Supp. 2005), and the Parties to this Settlement Agreement are the only parties of record in the above-captioned docket;

WHEREAS, since the filing of the Application, ORS has propounded numerous data requests to CWS and the Company has provided those responses to ORS;

WHEREAS, ORS has audited the books and records of the Company relative to the matters raised in the Application and, in connection therewith, has requested of and received from the Company additional documentation;

WHEREAS, the Parties have varying legal positions regarding the issues in this case;

WHEREAS, the Parties have engaged in discussions to determine if a settlement of the issues would be in their best interests and in the case of ORS, in the public interest; and

WHEREAS, following those discussions the Company has determined that its interests and ORS has determined that the public interest would be best served by stipulating to a comprehensive settlement of all issues pending in the above-captioned case under the terms and conditions set forth herein;

NOW, THEREFORE, the Parties hereby stipulate and agree to the following terms, which, if adopted by the Commission in its Order on the merits of this proceeding, will result in rates and terms and conditions of water and sewer service which are adequate, just, reasonable, nondiscriminatory, and supported by the evidence of record of this proceeding, and which will allow the Company the opportunity to earn a reasonable rate of return.

1. The Parties agree that no documentary evidence will be offered in the proceeding by the Parties other than: (1) the Application filed by the Company, (2) the exhibits to the testimony referenced in paragraph 2 below, and (3) this Settlement Agreement with Exhibits "A"- "G" attached hereto.

2. The Parties stipulate and agree to include in the hearing record of this case the pre-filed direct testimonies of Steven M. Lubertozzi and Bruce T. Haas, the direct testimonies of Sharon G. Scott and Dawn Hipp attached hereto as Exhibits "A" and "B", respectively, and the rebuttal testimonies of Bruce T. Haas and Steven M. Lubertozzi attached as Exhibits "C" and "D", respectively, including all exhibits attached to said testimonies, without objection, change, amendment, or cross-examination. Further, the parties agree to include in the hearing record of this case without objection, change, amendment, or cross examination the testimony of witnesses

B. R. Skelton, PhD. and Converse A. Chellis, III, CPA, attached hereto and incorporated herein by this reference as Exhibits "E" and "F", respectively.

3. The Parties stipulate and agree that the accounting exhibits prepared by ORS and attached to the testimony of Sharon G. Scott (filed herewith as Exhibit "A") fairly and reasonably set forth the Company's operating expenses, pro forma adjustments, depreciation rates, rate base, return on equity at an agreed upon rate of 9.40%, revenue requirement, and rate of return on rate base.

4. The Parties stipulate and agree that the rate schedule attached hereto as Exhibit "G", including the rates and charges and terms and conditions of service, are fair, just, and reasonable. The Parties further stipulate and agree that the rates contained in said rate schedule are reasonably designed to allow the Company to provide service to its water and sewer customers at rates and terms and conditions of service that are fair, just and reasonable and the opportunity to recover the revenue required to earn a fair return on its investment.

5. ORS is charged by law with the duty to represent the public interest of South Carolina pursuant to S.C. Code § 58-4-10(B) (added by Act 175). S.C. Code § 58-4-10(B)(1) through (3) reads in part as follows:

... 'public interest' means a balancing of the following:

- (1) concerns of the using and consuming public with respect to public utility services, regardless of the class of customer;
- (2) economic development and job attraction and retention in South Carolina; and
- (3) preservation of the financial integrity of the State's public utilities and continued investment in and maintenance of utility facilities so as to provide reliable and high quality utility services.

ORS believes the agreement reached between the Parties serves the public interest as defined above. The terms of this Settlement Agreement balance the concerns of the using public

while preserving the financial integrity of the Company. ORS also believes the Settlement Agreement promotes economic development within the State of South Carolina. The Parties stipulate and agree to these findings.

6. In its Application, the Company requested an increase in annual net revenues of \$957,980. As a compromise to their respective positions, the Parties stipulate and agree to an increase in annual net revenues of \$474,117, said increase to be based upon the accounting adjustments reflected in the attachments to the testimony of Sharon Scott (filed herewith as Exhibit "A") and the return on equity stipulated to by the Parties in Paragraph 7 below.

7. The Company and ORS recognize the value of resolving this proceeding by settlement rather than by litigation and, therefore stipulate and agree for purposes of settlement in this case that a return on equity of 9.40% is just and reasonable under the specific circumstances of this case in the context of a comprehensive settlement.

8. The Parties further stipulate and agree that the stipulated testimony of record, the Application, and this Settlement Agreement conclusively demonstrate the following: (i) the proposed accounting and pro forma adjustments and depreciation rates shown on the attachments to the testimony of Sharon G. Scott (Exhibit "A" hereto) are fair and reasonable and should be adopted by the Commission for ratemaking and reporting purposes; (ii) a return on equity of 9.40%, which yields a fair rate of return on rate base for the Company of 7.64%, an operating margin of 9.86%, and an annual increase in revenues of approximately \$474,117, is fair, just, and reasonable when considered as a part of this stipulation and settlement agreement in its entirety; (iii) CWS's services are adequate and being provided in accordance with the requirements set out in the Commission's rules and regulations pertaining to the provision of water service and sewer service, and (iv) CWS's rates as proposed in this Settlement Agreement are fairly designed to

equitably and reasonably recover the revenue requirement and are just and reasonable and should be adopted by the Commission for service rendered by the Company on and after September 27, 2006.

9. The Parties further agree and stipulate that the rate schedule attached hereto as Exhibit "G", including the rates and charges and the terms and conditions set forth therein, are just and reasonable, reasonably designed, and should be approved and adopted by the Commission.

10. The Parties agree to advocate that the Commission accept and approve this Settlement Agreement in its entirety as a fair, reasonable and full resolution of the above-captioned proceeding and to take no action inconsistent with its adoption by the Commission. The Parties further agree to cooperate in good faith with one another in recommending to the Commission that this Settlement Agreement be accepted and approved by the Commission. The Parties agree to use reasonable efforts to defend and support any Commission order issued approving this Settlement Agreement and the terms and conditions contained herein.

11. The Parties agree that signing this Settlement Agreement will not constrain, inhibit, impair, or prejudice their arguments made or positions held in other proceedings. If the Commission should decline to approve the agreement in its entirety, then any Party desiring to do so may withdraw from the Settlement Agreement without penalty or obligation.

12. This Settlement Agreement shall be interpreted according to South Carolina law.

13. The above terms and conditions fully represent the agreement of the Parties hereto. Therefore, each Party acknowledges its consent and agreement to this Settlement Agreement by affixing its signature or by authorizing its counsel to affix his or her signature to this document where indicated below. Counsel's signature represents his or her representation

that his or her client has authorized the execution of the agreement. Facsimile signatures and e-mail signatures shall be as effective as original signatures to bind any party. This document may be signed in counterparts, with the various signature pages combined with the body of the document constituting an original and provable copy of this Settlement Agreement. The Parties agree that in the event any Party should fail to indicate its consent to this Settlement Agreement and the terms contained herein, then this Settlement Agreement shall be null and void and will not be binding on any Party.

WE AGREE:

Representing the South Carolina Office of Regulatory Staff

Shannon Bowyer Hudson

Nanette S. Edwards, Esquire

C. Lessie Hammonds, Esquire

Shannon Bowyer Hudson, Esquire

South Carolina Office of Regulatory Staff

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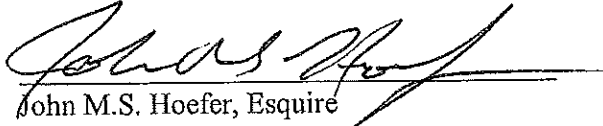
E-mail: nsedwar@regstaff.sc.gov

lhammonds@regstaff.sc.gov

shudson@regstaff.sc.gov

WE AGREE:

Representing Carolina Water Service, Inc.

A handwritten signature in black ink, appearing to read "John M.S. Hoefer", is written over a horizontal line.

John M.S. Hoefer, Esquire

Willoughby & Hoefer, P.A.

Post Office Box 8416

1022 Calhoun Street, Suite 302

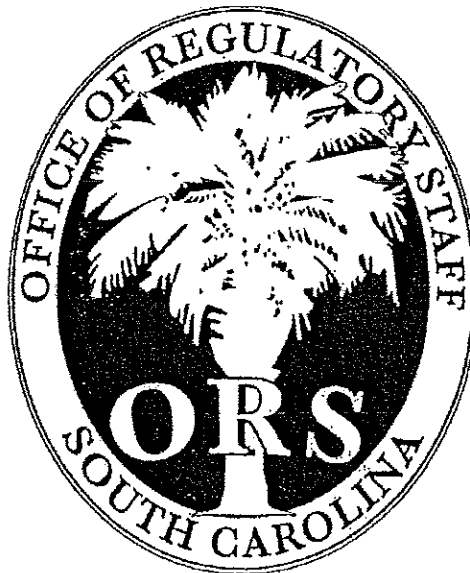
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THE OFFICE OF REGULATORY STAFF
DIRECT TESTIMONY AND EXHIBITS
OF
SHARON G. SCOTT



DOCKET NO. 2006-92-W/S

APPLICATION OF
CAROLINA WATER SERVICE, INC.
FOR ADJUSTMENT OF RATES AND CHARGES

1

2

TESTIMONY OF SHARON G. SCOTT

3

FOR

4

THE OFFICE OF REGULATORY STAFF

5

DOCKET NO. 2006-92-W/S

6

IN RE: CAROLINA WATER SERVICE, INC.

7

8 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.**

9 A. My name is Sharon G. Scott. My business address is 1441 Main Street, Suite 300,
10 Columbia, South Carolina, 29201. I am employed by the South Carolina Office of
11 Regulatory Staff ("ORS") as an Auditor.

12 **Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND YOUR**
13 **BUSINESS EXPERIENCE.**

14 A. I received a B.S. Degree in Business Administration, with a major in Accounting
15 from the University of South Carolina in May 1983 and a MBA degree from Webster
16 University in May 2000. I was employed by the South Carolina Public Service
17 Commission in July 1983 and have participated in cases involving gas, electric,
18 telephone, water and wastewater utilities. In January 2005, I began my employment
19 with ORS. I have over 22 years of experience auditing utility companies.

20 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY INVOLVING**
21 **CAROLINA WATER SERVICE, INC?**

THE OFFICE OF REGULATORY STAFF
1441 Main Street, Suite 300, Columbia, SC 29201
Post Office Box 11263, Columbia, SC 29211

1 A. The purpose of my testimony is to set forth the adjustments agreed upon in the
2 settlement agreement ("settlement agreement") by ORS and Carolina Water Service,
3 Inc. ("CWS" or "the Company") in this docket.

4 **Q. PLEASE IDENTIFY THE EXHIBITS ATTACHED TO YOUR PREFILED**
5 **TESTIMONY.**

6 A. I have attached the Report of the Audit Department ("Audit Report") related to
7 CWS's Application for a Rate Increase, Docket No. 2006-92-W/S. The contents of
8 the Audit Report were either prepared by me or were prepared under my direction
9 and supervision in accordance with the settlement agreement between ORS and
10 CWS. The contents are also in compliance with recognized accounting and
11 regulatory procedures for Water and Wastewater utility rate cases. The Audit Report
12 and attached exhibits reflect a return on equity ("ROE") of 9.40% and a return on
13 rate base of 7.64%. As a part of the settlement, CWS agreed to accept ORS's
14 adjustments as reflected in Audit Exhibits SGS - 1 through SGS - 11.

15 **Q. WHAT IS THE PERCENTAGE DECREASE FROM THE PROPOSED**
16 **REVENUE IN THE SETTLEMENT AGREEMENT?**

17 A. The Company requested an increase in annual net revenues of \$957,980. As a
18 compromise, ORS and the Company agree to an increase in annual net revenues of
19 \$474,117. This amount is approximately 50.51% less than the Company's requested
20 increase in its application.

1 Q. HAS CWS PETITIONED THE COMMISSION TO TRANSFER THE KING'S
2 GRANT, PLANTATION RIDGE AND TEAL ON THE ASHLEY WATER
3 AND WASTEWATER SYSTEMS?

4 A. Yes. Under Docket No. 2006-171-W/S, CWS filed an application to transfer the
5 water and wastewater systems and service territory serving King's Grant, Plantation
6 Ridge and Teal on the Ashley subdivisions to the County of Dorchester. If this
7 transfer is approved by the Commission, CWS will no longer serve any customers in
8 Dorchester County.

9 Q. DOES ORS INCLUDE INFORMATION IN ITS DIRECT TESTIMONY FOR
10 KING'S GRANT, PLANTATION RIDGE AND TEAL ON THE ASHLEY
11 CUSTOMERS?

12 A. Yes. While ORS continues to review the CWS petition to transfer the Dorchester
13 water and wastewater systems and service territory, we have normalized test year
14 operations to reflect the elimination of the King's Grant, Plantation Ridge and Teal
15 on the Ashley subdivisions.

16 Q. PLEASE EXPLAIN THE CONTENTS OF THE AUDIT REPORT.

17 A. As outlined in the Index of the Audit Report, pages 1-6 contain the analysis of CWS
18 and its application as well as the settlement agreement. The remaining pages consist
19 of exhibits which were prepared to show various aspects of CWS's operations and
20 financial position. The majority of my testimony will refer to Audit Exhibit SGS-1 -
21 Operating Experience, Rate Base and Rates of Return - Combined Operations as
22 shown on page 7 of the Audit Report.

1 **Q. PLEASE DESCRIBE THE FORMAT OF AUDIT EXHIBIT SGS-1.**

2 A. Column (1) shows per book balances for CWS as of September 30, 2005. The per
3 book balances were verified to the books and records of CWS.
4 Column (2) shows accounting adjustments for revenue and other adjustments related
5 to Docket No. 2004-357-W/S that affect the per book numbers.
6 Column (3) shows the adjusted per books after various adjustments concerning
7 Docket No. 2004-357-W/S.
8 Column (4) shows accounting and pro forma adjustments designed to normalize
9 CWS's adjusted per book operations.
10 Column (5) shows the operations after the accounting and pro forma adjustments.
11 Column (6) reflects the removal of the revenue, expenses, and rate base amounts
12 associated with the proposed Dorchester County transfer.
13 Column (7) shows the computation of CWS's normalized test year after the
14 Dorchester County transfer and prior to implementing the proposed increase.
15 Column (8) shows the adjustments for the proposed increase and associated
16 adjustments in accordance with the settlement agreement between ORS and CWS.
17 Column (9) shows our computation of the normalized test year after accounting and
18 pro forma adjustments, the proposed Dorchester County transfer, and the proposed
19 increase and associated adjustments in accordance with the settlement agreement
20 between ORS and CWS.

1 Q. PLEASE ELABORATE ON THE CALCULATIONS IN AUDIT EXHIBIT
2 SGS-1 – OPERATING EXPERIENCE, RATE BASE AND RATES OF
3 RETURN - COMBINED.

4 A. Column (1) shows the per books operating experience of CWS which reflects Total
5 Operating Revenues of \$6,047,725, Total Operating Expenses of \$5,601,421, and
6 Net Income for Return of \$452,928. Per Book Total Rate Base amounted to
7 \$16,503,928. The resultant per book Return on Rate Base was 2.74%.

8 Column (2) relates to Additional Adjustments from Docket No. 2004-357-W/S and
9 shows revenue adjustments of \$687,260, expense adjustments of \$212,500 resulting
10 in an adjustment to Net Income for Return of \$474,760. Net rate base adjustments
11 amounted to (\$1,164,045) and Interest Expense is adjusted by (\$582,457).

12 In column (3), the As Adjusted Per Book Revenues amounted to \$6,734,985, Total
13 Operating Expenses were \$5,813,921, Net Income for Return was \$927,688 and
14 Total Rate Base was \$15,339,883. The resultant computations produced a Return on
15 Rate Base of 6.05%.

16 Column (4) reflects our accounting and pro forma adjustments recorded to normalize
17 CWS's test year operations. A description of each adjustment is contained in Audit
18 Exhibit SGS- 4.

19 Column (5) show the results of the accounting and pro forma adjustments as adjusted
20 by ORS.

21 Column (6) reflects the adjustments associated with the proposed Dorchester County
22 transfer which includes King's Grant, Teal on the Ashley, and Plantation Ridge

1 subdivisions. Total Operating Revenues were reduced by (\$339,332), Total
2 Expenses by (\$259,502), and Rate Base by (\$706,152).

3 Column (7) reflects the As Adjusted Present or normalized amounts after the
4 accounting and pro forma adjustments and the removal of the Dorchester County
5 subdivisions. These adjustments produced Total Revenues of \$6,378,480, Total
6 Operating Expenses of \$5,329,474, Net Income for Return of \$1,052,540 and Total
7 As Adjusted Present Rate Base of \$17,582,544. A Return on Rate Base of 5.99%
8 was computed using the above amounts.

9 Column (8) reflects the proposed increase and its related effects on expenses in
10 accordance with the settlement agreement between ORS and CWS. These
11 adjustments are detailed in Audit Exhibit SGS – 4.

12 Column (9) shows per book operations, adjusted for accounting and pro forma
13 adjustments, the proposed Dorchester County transfer, and the requested increase and
14 expenses in accordance with the settlement agreement between ORS and CWS.
15 Using Total Operating Revenues of \$6,852,597 less Total Operating Expenses of
16 \$5,514,147 and adding Customer Growth of \$4,511, Net Income for Return of
17 \$1,342,961 was computed. Total Rate Base amounted to \$17,582,544 producing a
18 Return on Rate Base of 7.64%.

19 **Q. PLEASE EXPLAIN THE ADJUSTMENTS IN AUDIT EXHIBIT SGS - 4.**

20 **A.** The adjustments are as follows:

21 Adjustments Nos. 1 - 10 – These adjustments were recorded to reflect additional
22 revenues realized as a result of Docket No. 2004-357-W/S, and other adjustments

1 from previous CWS rate cases which affect the per book numbers. The revenue
2 adjustments were computed by ORS's Water and Wastewater Department. Other
3 adjustments were made for the removal of wells in the previous rate cases, excess
4 book value, and interest expense to reflect items from Docket No. 2004-357-W/S.

5 Adjustment No. 11 -- Operating Revenues

6 The Water/Wastewater Department proposes to adjust revenues using billing
7 information for the test year ended September 30, 2005. The water revenues after the
8 accounting and pro forma adjustments as computed by the Water/Wastewater
9 Department totaled \$1,939,791 less the adjusted per book amount of \$1,922,393, for
10 an adjustment of \$17,398. The sewer revenues after the accounting and pro forma
11 adjustments as computed by the Water/Wastewater Department totaled \$4,720,287
12 less the adjusted per book amount of \$4,755,009, for an adjustment of (\$34,722).
13 The total adjustment amounted to (\$17,324). Details of these adjustments are shown
14 on Exhibit DMH-5 of ORS Water/Wastewater Program Specialist, Dawn Hipp.

15 Adjustment No. 12 -- Uncollectible Revenue

16 ORS and CWS propose to adjust for uncollectible revenue associated with the pro
17 forma revenue adjustments. ORS and CWS used the uncollectible rate of .85% for
18 water and .86% for sewer. ORS's adjustment amounted to (\$148) for water, \$299 for
19 sewer, and \$151 for combined operations. ORS's Water/Wastewater Department
20 verified that the factors were reasonable based on their examination of the billing
21 records.

22 Adjustment No. 13 -- Operators' Salaries and Wages

1 ORS and CWS propose to adjust operators' salaries. ORS annualized wages using
2 wage rates in effect as of May 2006 and the latest available wage allocations as of
3 September 30, 2005. ORS computed annualized wages of \$777,898 less per book
4 wages of \$709,832 for an adjustment of \$68,066. ORS did not include a 4% cost of
5 living increase proposed by CWS since supporting documentation was not received
6 in sufficient time to allow for its audit. CWS included a 4% wage increase.

7 Adjustment No. 14 – Operating Expense Charged to Plant

8 ORS and CWS propose to charge a portion of operators' salaries and wages to plant
9 for time operators spent on capital projects. ORS computed an amount of \$34,400
10 using a ratio of 39.30%. ORS computed the ratio using actual test year Operating
11 Expenses Charged to Plant divided by operators' test year Salaries and Wages, FICA,
12 FUTA, SUTA, Pension, 401K, Health Insurance, and Other for operators (\$346,115 /
13 \$880,711). CWS used a capitalization ratio of 35.16% which was computed using
14 annualized salaries, taxes, and benefits.

15 Adjustment No. 15 - Office Salaries -- ORS and CWS propose to adjust Office
16 Salaries. ORS annualized wages using rates as of May 2006 and the latest
17 available wage allocations as of September 30, 2005. ORS did not include the 4%
18 cost of living increase, since supporting documentation was not received in
19 sufficient time to allow for its audit. ORS computed Office Salaries of \$337,924
20 less the per book amount of \$297,172 for an adjustment of \$40,752. The office
21 salaries included the South Carolina office, and allocations from the corporate and
22 North Carolina offices. CWS's wage adjustment included a 4% wage increase.

1 Adjustment No. 16 -- Rate Case Expenses - ORS and CWS propose to amortize
2 rate case expenses over a three-year period. ORS adjusted for current rate case
3 expenses of \$318,349, unamortized rate case expenses from Docket No. 2004-357-
4 WS of \$100,277, and additional rate case expenses from Docket No. 2004-357-
5 W/S of \$67,148, for total rate case expenses to be amortized of \$485,774. This
6 amount was amortized over three years for the test year amount of \$161,925.
7 From this amount, ORS subtracted the per book rate case expenses of \$23,117 for a
8 net adjustment of \$138,808. The current rate case expenses include CWS's portion
9 of the cost of the Utilities, Inc. management audit approved by the PSC in Docket
10 No. 2004-357-W/S. Other expenses are for legal and consulting fees, postage,
11 printing, and direct time spent on the case by the corporate office staff.

12 Adjustment No. 17 -- Annualize Pension and Other Benefits -- ORS and CWS
13 propose to annualize pension and other benefits associated with the wage adjustment
14 for Operators and Office Employees. ORS did not include pension and benefits for
15 part-time employees as CWS does not pay benefits to these employees. The total
16 ORS adjustment was \$193,367 less the per book amount of \$179,479 resulting in an
17 adjustment of \$13,888. ORS capitalized a portion of these costs for operators in
18 expenses charged to plant in adjustment #14. CWS computed an adjustment of
19 \$16,298 using its computed annualized wages.

20 Adjustment No. 18 -- Nonallowable Expenses -- ORS and CWS proposes to remove
21 DHEC fines of \$13,600 from the test year expenses. ORS also proposes to remove
22 lobbying expenses of \$33,375. Total expenses removed amounted to (\$46,975).

1 Adjustment No. 19 -- Interest on Customer Deposits

2 ORS proposes to annualize interest on customer deposits using the year end balance
3 of \$205,402 and the approved interest rate of 3.50% for annualized interest of \$7,189
4 less the per book amount of \$6,523, resulting in an adjustment of \$666.

5 Adjustment No. 20 Depreciation Expense -- ORS and CWS propose to annualize
6 Depreciation Expense. ORS used gross plant for the test year of \$39,009,799 and
7 additional general ledger additions as of June 2006 of \$1,616,142, completed projects
8 of \$1,095,915, a water retirement of (\$41,680) and capitalized time of \$34,400
9 totaling net plant additions of \$2,704,777. ORS adjusted this amount by removing
10 Organization Expense, Land, Vehicles, and Computers, resulting in net plant,
11 depreciated at 1.50% or 66.67 years. ORS depreciated net vehicles and computers at
12 25% or 4 years and included adjustments for the WSC Rate Base Depreciation,
13 Regional Office Allocation Depreciation, and the amortization of Excess Book value.
14 ORS's total depreciation expense amounted to \$697,931 less the per book amount of
15 \$652,759 for a total adjustment of \$45,172. CWS computed depreciation expense
16 using gross plant for the test year and estimated pro forma projects (net of
17 retirements), general ledger additions, and capitalized time additions. CWS's
18 adjustment amounted to \$104,609. See Audit Exhibit SGS -- 5 for details of the
19 Depreciation Expense Adjustment.

20 Adjustment No. 21 -- Payroll Taxes -- ORS and CWS propose to adjust for payroll
21 taxes associated with the wage adjustment. The payroll taxes include FICA, SUTA,
22 and FUTA taxes. ORS computed taxes of \$86,934 less the per book amount of

1 \$81,313, resulting in an adjustment of \$5,621. Of this amount, 39.30% is capitalized
2 in adjustment #14.

3 Adjustment No. 22 – Utility/Commission and Gross Receipts Taxes -- ORS and
4 CWS propose to adjust utility/commission taxes and gross receipts taxes associated
5 with the revenue after accounting and pro forma adjustments. ORS used a factor of
6 .0112524 which is comprised of the Public Service Commission and Office of
7 Regulatory Staff's factor of .0082524 and the Department of Revenue's factor of
8 .003. ORS's total adjustment is (\$195).

9 Adjustment No. 23 – Property Taxes -- ORS and CWS propose to remove an accrual
10 of (\$513,569) for property taxes to reflect the proper level for the test year.

11 Adjustment No. 24 -- Income Taxes -- ORS proposes an adjustment of \$59,341 to
12 income taxes for the effects of the accounting and pro forma adjustments. ORS and
13 CWS used a 5% rate for state income taxes and 35% rate for federal income taxes.
14 See Audit Exhibit SGS -- 6. CWS's income taxes were based on company's
15 calculated taxable income.

16 Adjustment No. 25 – Contributions in Aid of Construction (CIAC) -- ORS and CWS
17 propose to adjust the amortization of CIAC using a 1.5% depreciation rate. ORS used
18 the gross per book Contributions in Aid of Construction of (\$17,462,862) at 1.50%
19 for an amortization amount of (\$261,943) less the per book amount of (\$259,823),
20 for an adjustment of (\$2,120). CWS's adjustment amounted to \$22,519.

21 Adjustment No. 26 – Interest During Construction (IDC) -- Both ORS and CWS
22 propose to remove the income associated with capitalized interest for projects under

1 construction. CWS does not propose to include Construction Work In Progress and
2 therefore, the income associated with CWIP is not included as an offset to expenses.
3 The adjustment amounted to (\$6,624).

4 Adjustment No. 27 – Customer Growth – ORS proposes to adjust for customer
5 growth using the latest available customers as of May 2006. Customers are updated
6 since plant additions are included through June 2006. ORS proposes an adjustment
7 of \$3,783. See Audit Exhibit SGS -7.

8 Adjustment No. 28 – Plant Additions – ORS and CWS propose to adjust for plant
9 additions. ORS adjusted for total verified plant additions and retirements of
10 \$2,670,377 as of June 2006. This amount includes general ledger additions as of
11 June 2006 of \$1,616,142, completed projects of \$1,095,915, and a water retirement
12 of (\$41,680). This plant is known and measurable and providing service to present
13 customers. CWS proposes to adjust for estimated general ledger additions,
14 capitalized time additions, and pro forma plant and retirements, totaling \$3,363,037.

15 Adjustment No. 29 – Capitalized Wages – ORS proposes to book to plant the portion
16 of operators' wages, taxes, and benefits associated with capital projects in accordance
17 with ORS's computed capitalization ratio of 39.30%. ORS capitalized wage
18 adjustment amounted to \$34,400 as shown in adjustment #14.

19 Adjustment No. 30 – Accumulated Depreciation – ORS proposes to adjust
20 accumulated depreciation for the annualized depreciation expense of (\$45,172) and
21 retired plant of \$265,153 (general ledger retirements of \$223,473 and a water
22 retirement of \$41,680) for a total adjustment of \$219,981. CWS proposes to adjust

1 accumulated depreciation for estimated general ledger additions, actual and estimated
2 capitalized time additions, and actual and estimated pro forma plant additions and
3 retirements for an adjustment of \$225,514.

4 Adjustment No. 31 – Cash Working Capital – ORS proposes an adjustment of
5 \$22,601 to adjust Cash Working Capital after accounting and pro forma adjustments.
6 CWS proposes an adjustment of \$35,480. This adjustment reflects the working
7 capital needed prospectively. See Audit Exhibit SGS-8.

8 Adjustment No. 32 – Contributions in Aid of Construction (CIAC) – ORS proposes
9 to adjust rate base for amortization of CIAC of \$2,120 as shown in Adjustment #25.

10 Adjustment No. 33 – Customer Deposits – ORS proposes to adjust rate base for the
11 interest on customer deposits of (\$666) as shown in adjustment #19.

12 Adjustment No. 34 – Interest Expense – ORS and CWS propose to adjust allowable
13 Interest Expense to reflect the Rate Base after accounting and pro forma adjustments
14 using the capitalization ratios of 59.10% for debt, 40.90% for equity and a cost of
15 debt of 6.42%. ORS's adjustment is for \$111,976, resulting in allowable interest
16 expense of \$693,913. CWS used its pro forma Rate Base to compute an adjustment
17 to Interest Expense of \$137,482. See Audit Exhibit SGS – 9 for ORS's computed
18 Interest Expense.

19 Adjustments No. 35 – 61 - Dorchester County Transfer – ORS shows the effects
20 of the proposed Dorchester County transfer which includes King's Grant, Teal on the
21 Ashley, and Plantation Ridge subdivisions. ORS verified the amounts to CWS's
22 books and records and recomputed corresponding adjustments such as gross receipts

1 taxes, income taxes, depreciation expense and interest expense. ORS adjustments are
2 as follows:

3 Adjustment No. 35 - Service Revenues -- The ORS Water and Wastewater
4 Department proposes to remove service revenues of (\$331,417) based on customer
5 billings for the test year ended September 30, 2005 to reflect the proposed Dorchester
6 County transfer. Details of these adjustments are shown on Exhibit DMH-5 of ORS
7 Water/Wastewater Program Specialist, Dawn Hipp.

8 Adjustment No. 36 - Miscellaneous Revenue - The ORS Water and Wastewater
9 Department proposes to remove miscellaneous revenues of (\$10,764) to reflect the
10 proposed Dorchester County transfer. Details of these adjustments are shown on
11 Exhibit DMH-5 of ORS Water/Wastewater Program Specialist, Dawn Hipp.

12 Adjustment No. 37 - Uncollectible Accounts -- ORS proposes to adjust for
13 uncollectible accounts to reflect the proposed Dorchester County transfer. ORS used
14 a rate of .85% applied to water revenue of \$12,269 (\$104) and a rate of .86% applied
15 to sewer revenue of \$319,148 (\$2,745) for a total adjustment of \$2,849.

16 Adjustment No. 38 - Maintenance Expenses -- ORS proposes to remove per book
17 maintenance expenses of (\$123,130).

18 Adjustment No. 39 - Operator's Salaries - ORS proposes to remove a total of
19 (\$40,451) for per book operators' salaries and the wage adjustment. ORS computed
20 this amount using the total annualized operators' payroll of \$777,898 and 5.20%.
21 The factor was computed using customer equivalents as of September 30, 2005 of

1 757 for the transferred subdivisions divided by total CWS customer equivalents of
2 14,559.

3 Adjustment No. 40 -- Expenses Charged to Plant - ORS proposes to remove
4 Expenses Charged to Plant, computed using the adjustment amount of \$34,400 (Adj.
5 No. 14) and the customer equivalent factor of 5.20% for an adjustment of \$1,789.

6 Adjustment No. 41 -- General Expenses - ORS proposes to remove per book general
7 expenses of (\$3,242).

8 Adjustment No. 42 -- Office Salaries - ORS proposes to remove a total amount of
9 (\$7,939) for office salaries.

10 Adjustment No. 43 -- Pension and Benefits - ORS proposes to remove (\$8,537) for
11 benefits for operators and office employees.

12 Adjustment No. 44 -- WSC Expenses - ORS proposes to remove a total amount of
13 (\$18,750) for WSC corporate office expenses.

14 Adjustment No. 45 -- Depreciation Expense - ORS proposes to remove depreciation
15 expense associated with plant as of June 2006 for the transferred subdivisions. ORS
16 used the total transferred plant amount of \$1,554,861 (plant of \$1,553,072 and
17 capitalized wages of \$1,789) and a 1.50% depreciation rate for a total adjustment of
18 (\$23,323).

19 Adjustment No. 46 -- Taxes Other Than Income - ORS proposes to remove per book
20 property taxes of (\$7,165).

21 Adjustment No. 47 -- Payroll Taxes - ORS proposes to remove payroll taxes
22 associated with the transfer of (\$4,095).

1 Adjustment No. 48 - Gross Receipts Taxes -- ORS proposes to remove gross receipts
2 taxes of (\$3,850) which was computed using the gross revenues of \$342,181 and
3 .0112524.

4 Adjustment No. 49 -- Income Taxes -- ORS proposes to adjust State and Federal
5 Income Taxes for (\$32,854) to reflect the impact of the Dorchester County transfer.
6 See Audit Exhibit SGS-6.

7 Adjustment No. 50 -- Amortization of Purchase Acquisition Adjustment (PAA) --
8 ORS proposes to remove the per book amount for the amortization of the purchase
9 acquisition adjustment of \$2,441.

10 Adjustment No. 51 -- Amortization of Contribution in Aid of Construction (CIAC) --
11 ORS proposes to remove the per book amount for the amortization of contributions
12 in aid of construction of \$9,604.

13 Adjustment No. 52 -- Customer Growth -- ORS proposes to reduce Net Operating
14 Income by (\$249) for the customer growth adjustment related to the proposed
15 Dorchester County transfer. See Audit Exhibit SGS -- 7.

16 Adjustment No. 53 -- Plant In Service -- ORS proposes to remove plant as of June
17 2006 of (\$1,554,861) which includes plant in service of (\$1,553,072) and capitalized
18 wages of (\$1,789).

19 Adjustment No. 54 - Accumulated Depreciation - ORS proposes to remove
20 accumulated depreciation of \$181,531 as of June 2006.

1 Adjustment No. 55 - Cash Working Capital -- ORS proposes an adjustment of
2 (\$25,033) to cash working capital for the effects of the proposed Dorchester County
3 transfer. See Audit Exhibit SGS -8.

4 Adjustment No. 56 - Water Service Corporation (WSC) -- ORS recomputed the
5 factor used for the allocation of the WSC rate base after removal of the customer
6 equivalents associated with the Dorchester County transfer. ORS used customer
7 equivalents as of September 30, 2005. A factor of .059056, which excludes customer
8 equivalents for the transferred subdivisions, was applied to the WSC rate base of
9 \$1,704,694 for an amount of \$100,673 less the per book amount of \$105,057 for an
10 adjustment of (\$4,384).

11 Adjustment No. 57 - Contributions in Aid of Construction -- CIAC -- ORS proposes
12 to remove per book net CIAC of \$540,237 as of September 2005.

13 Adjustment No. 58 - Plant Acquisition Adjustment -- PAA -- ORS proposes to
14 remove the per book net Purchase Acquisition Adjustment of \$91,817 as of
15 September 2005.

16 Adjustment No. 59 - Accumulated Deferred Income Taxes (ADIT) -- ORS proposes
17 to remove per book Accumulated Deferred Income Taxes of \$63,333 as of
18 September 2005.

19 Adjustment No. 60 - Customer Deposits -- ORS proposes to remove per book
20 customer deposits of \$1,208.

1 Adjustment No. 61 -- Interest Expense -- ORS proposes to synchronize interest
2 expense to reflect the proposed Dorchester County transfer. ORS proposes an
3 adjustment of (\$26,793).

4 Adjustment No. 62 -- Operating Revenues - Proposed Increase -- In accordance with
5 the settlement agreement, ORS and CWS agreed upon an increase in annual revenues
6 of \$478,215. Details of these adjustments are shown on Exhibit DMH-5 of ORS
7 Water/Wastewater Program Specialist, Dawn Hipp.

8 Adjustment No. 63-- Uncollectible Accounts -- Proposed Increase - ORS and CWS
9 propose to adjust for uncollectible revenue associated with the proposed revenue
10 using the uncollectible factors for the test year of .85% for water and .86% for sewer.
11 ORS removed total uncollectible accounts of (\$4,098). ORS's Water/Wastewater
12 Department verified that the factors were reasonable based on their examination of
13 the billing records. CWS proposed an adjustment of (\$8,285).

14 Adjustment No. 64 -- Taxes Other Than Income -- Proposed Increase -- ORS and
15 CWS propose to adjust utility/commission taxes and gross receipts taxes associated
16 with the proposed revenue. ORS used a factor of .0112524 which is comprised of
17 the Public Service Commission and Office of Regulatory Staff's factor of .0082524
18 and the Department of Revenue's factor of .003. ORS's total adjustment amounted
19 to \$5,381 and CWS's adjustment was \$10,854.

20 Adjustment No. 65 -- Income Taxes -- Proposed Increase -- ORS proposes to adjust
21 Income Taxes by \$179,292 for the effects of the Proposed Increase. Both ORS and
22 CWS used a 5% rate for state income taxes and a composite rate of 35% for federal

1 income taxes. See Audit Exhibit SGS -- 6 for details. CWS's computation is based
2 on the company's computed taxable income.

3 Adjustment No. 66 - Customer Growth - ORS proposes an adjustment of \$977 to
4 reflect customer growth after the proposed increase using customers updated to latest
5 available data as of May 31, 2006. Customers are updated since plant additions have
6 been included to June 2006. See Audit Exhibit SGS -7 for details. ORS used the
7 number of customers excluding the customers from the proposed Dorchester County
8 transfer.

9 **Q. PLEASE DESCRIBE THE REMAINING AUDIT EXHIBITS.**

10 A. Audit Exhibit SGS-5 shows the Depreciation and Amortization Expense Adjustment.
11 Audit Exhibit SGS-6 shows the Computation of Income Taxes. Audit Exhibit SGS-7
12 shows the Customer Growth Computation. Audit Exhibit SGS - 8 shows the Cash
13 Working Capital Allowance. Audit Exhibit SGS - 9 shows the Return on Common
14 Equity. Audit Exhibit SGS - 10 shows the Income Statement for the Test Year
15 Ended September 30, 2005. Audit Exhibit SGS - 11 shows the Balance Sheet at Test
16 Year Ended September 30, 2005.

17 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

18 A. Yes, it does.

REPORT OF THE AUDIT DEPARTMENT

THE OFFICE OF REGULATORY STAFF

DOCKET NO. 2006-92-W/S

CAROLINA WATER SERVICE, INC.

REPORT OF THE AUDIT DEPARTMENT
THE OFFICE OF REGULATORY STAFF
DOCKET NO. 2006-92-W/S
CAROLINA WATER SERVICE, INC.

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REPORT OF THE AUDIT DEPARTMENT

THE OFFICE OF REGULATORY STAFF

DOCKET NO. 2006-92-W/S

CAROLINA WATER SERVICE, INC.

SYNOPSIS

	<u>Per</u> <u>Application</u>	<u>Per</u> <u>Settlement Agreement</u>
Amount Requested - Water-----	\$196,713*	\$146,129*
- Sewer-----	\$769,552*	\$332,086*
- Uncollectibles-----	(\$ 8,285)*	(\$4,098)*
- Combined-----	<u>\$957,980*</u>	<u>\$474,117*</u>

<u>Return on Rate Base:</u>	<u>Combined</u>	<u>Water</u>	<u>Sewer</u>
Per Books -----	2.74%	5.01%	1.86%
Adjusted Per Books -----	6.05%	5.44%	6.26%
After Accounting and Pro Forma Adjs.-----	6.19%	7.12%	5.89%
As Adjusted Present-----	5.99%	7.17%	5.59%
After Proposed Settlement Agreement Increase -----	7.64%	9.19%	7.12%

<u>Return on Common Equity:</u>	<u>Combined</u>	<u>Water</u>	<u>Sewer</u>
After Accounting and Pro Forma Adjs.-----	5.86%	8.13%	5.14%
As Adjusted Present-----	5.36%	8.26%	4.39%
After Proposed Settlement Agreement Increase-----	9.40%	13.20%	8.13%

* Excludes Proposed Dorchester County Transfer

REPORT OF THE AUDIT DEPARTMENT

THE OFFICE OF REGULATORY STAFF

DOCKET NO. 2006-92-W/S

CAROLINA WATER SERVICE, INC.

ANALYSIS

ORS has performed a review of the Application of Carolina Water Service, Inc. (hereinafter referred to as "CWS") along with certain CWS accounting records, relative to its application for authority to increase certain rates and charges in Docket No. 2006-92-W/S.

CWS is a water and wastewater utility operating in the state of South Carolina. CWS furnishes both water and sewer service to residential and commercial customers in the counties of Aiken, Beaufort, Dorchester, Georgetown, Lexington, Orangeburg, Richland, Sumter, Williamsburg, and York. CWS's home office is located at 2335 Sanders Road, Northbrook, Illinois, 60062. Its regional office is located at 110 Queens Parkway, West Columbia, South Carolina 29169. CWS is a wholly-owned subsidiary of Utilities, Inc., which is also located at the same address in Northbrook, Illinois.

ORS respectfully submits the results of its review as follows:

1. CWS filed an application on March 27, 2006 for approval of an increase in rates and charges for water and sewer services provided to its residential and commercial customers.
2. This matter is set for public hearing beginning Thursday, September 7, 2006 at 10:30 a.m.

3. CWS's application uses a test year ending September 30, 2005.
4. The following is a summary of CWS's most recent rate case filings:

<u>Date of Order</u>	<u>Effective Date</u>	<u>Docket Number</u>	<u>Amount Requested</u>	<u>Amount Granted</u>	<u>Return on Rate Base</u>	<u>Operating Margin</u>
06/22/05 (Appeal Pending)	06/22/05	2004-357-W/S	\$1,815,528	\$1,146,000	8.02%	8.13%
08/27/01	08/27/01	2000-207-W/S	\$685,063	\$406,246	10.06%	12.01%
05/31/94	05/31/94	93-738-W/S	\$804,492	\$664,542	-	13.86%
05/11/93	05/11/93	91-641-W/S	\$863,690	\$175,405	-	7.52%
08/01/90	08/01/90	89-610-W/S	\$967,706	\$845,976	-	10.42%
06/05/89	06/05/89	88-241-W/S	\$412,167	\$ 20,460	-	10.27%
12/01/86	12/01/86	86-220-W/S	\$414,936	\$287,875	-	11.38%

ORS's exhibits related to CWS's proposed increase are as follows:

AUDIT EXHIBIT SGS-1: OPERATING EXPERIENCE, RATE BASE, AND RATES OF RETURN-COMBINED

Shown in this exhibit is CWS's Operating Experience, Rate Base, and Rates of Return for the test year ended September 30, 2005. The exhibit's format is designed to reflect per book information, per books adjusted for Revenue and other adjustments generated from Docket No. 2004-357-W/S, and applicable accounting and pro forma adjustments necessary to correct or normalize the results of CWS's test year operations.

ORS verified the per book balances to the books and records of CWS. The book figures reflect that Operating Revenues for CWS totaled \$6,047,725 and Total Operating Income totaled \$446,304 plus Interest During Construction of \$6,624, for Net Income For Return of \$452,928. CWS's per book Total Rate Base was \$16,503,928. A per book Return on Rate Base of 2.74% was computed using Net Operating Income of \$452,928 and a rate base of \$16,503,928. The per book numbers were adjusted to reflect additional revenue and other adjustments from Docket No. 2004-357-W/S. As a result of these adjustments, total operating revenues amounted to \$6,734,985, Net Income

for Return of \$927,688 and Total Rate Base of \$15,339,883. The resultant return on rate base was 6.05% on adjusted per book operations. ORS's accounting and pro forma adjustments were added to adjusted per book operations. The net effect of these adjustments produced Total Operating Revenues of \$6,717,812, Net Income for Return of \$1,132,619 and a Total Rate Base of \$18,288,696. Using the Net Income for Return and Total Rate Base, ORS computed a Rate of Return on Rate Base of 6.19% after accounting and pro forma adjustments.

ORS has included the effects of the proposed Dorchester County transfer which includes King's Grant, Teal on the Ashley, and Plantation Ridge subdivisions. ORS verified the amounts to CWS books and records and recomputed corresponding adjustments. ORS removed (\$339,332) from Revenue, (\$259,502) from expenses and (\$706,152) from rate base. After the effects of the Dorchester County transfer, Total Operating Revenues were \$6,378,480, Total Operating Expenses were \$5,329,474, and Net Income for Return was \$1,052,540. ORS computed Total Rate Base of \$17,582,544 and a Return on Rate Base of 5.99%.

CWS has requested an increase in rates which would produce additional net annual revenues of \$903,922, comprised of a water increase of \$194,411, a sewer increase of \$717,332, and uncollectible revenue of (\$7,821). As a compromise ORS and CWS agree to a net increase in annual revenues of \$474,117. ORS adjusted for utility/commission gross receipts taxes and income taxes associated with the proposed increase.

After the proposed increase, Total Operating Revenues were \$6,852,597 and Net Income for Return of was \$1,342,961. Total Rate Base after the proposed increase was \$17,582,544. Using Net Income for Return and Total Rate Base after the proposed increase, ORS computed a Return on Rate Base of 7.64%.

AUDIT EXHIBIT SGS-2: OPERATING EXPERIENCE, RATE BASE AND RATES OF RETURN- WATER

Shown in this ORS exhibit is the Operating Experience, Rate Base, and Rates of Return for CWS's Water Operations.

AUDIT EXHIBIT SGS-3: OPERATING EXPERIENCE, RATE BASE, AND RATES OF RETURN-SEWER

Shown in this ORS exhibit is the Operating Experience, Rate Base, and Rates of Return for CWS's Sewer Operations.

AUDIT EXHIBIT SGS-4: EXPLANATION OF ACCOUNTING AND PRO FORMA ADJUSTMENTS- WATER, SEWER, AND COMBINED

Shown in this exhibit are the details of accounting and pro forma adjustments made to correct or normalize CWS's water and sewer operations and to reflect the proposed increase. For comparative purposes, ORS and CWS's adjustments are both presented in this exhibit.

AUDIT EXHIBIT SGS-5: DEPRECIATION AND AMORTIZATION EXPENSE ADJUSTMENT

Shown in this exhibit are ORS's computations of the adjustments to Depreciation Expense and the amortization of Contributions in Aid of Construction (CIAC). The Depreciation rate of 1.50% (66.67 years) was used for plant in service and 25.00% (4 years) was used for vehicles and computers as recommended by ORS's Water/Wastewater Department.

AUDIT EXHIBIT SGS-6: COMPUTATION OF INCOME TAXES

Shown in this exhibit is ORS's computation of State and Federal Income Taxes based on taxable income, adjusted per books, after accounting and pro forma adjustments, as adjusted present, and after the effect of the requested increase. ORS and CWS used the state income tax rate

of 5% and composite federal income tax rate of 35%.

AUDIT EXHIBIT SGS-7: CUSTOMER GROWTH COMPUTATION

Shown in this exhibit is the computation of CWS's customer growth. ORS used the number of customers at 10/01/2004 and 5/31/2006 to compute the growth factor. Since ORS proposes to include plant additions as of 6/2006, the latest available number of customers is used to compute the growth factors. ORS computed a growth factor of .40 % for water operations and a growth factor of .31% for sewer operations. Combined customer growth was computed by adding water customer growth and sewer customer growth.

AUDIT EXHIBIT SGS-8: CASH WORKING CAPITAL ALLOWANCE

Shown in ORS's exhibit is the calculation of cash working capital after accounting and pro forma adjustments and as adjusted present operations at September 30, 2005. ORS uses a forty-five day cash working capital allowance since CWS bills in arrears.

AUDIT EXHIBIT SGS-9: RETURN ON COMMON EQUITY – WATER, SEWER, AND COMBINED

CWS's return on common equity is computed both before and after the requested increase. The rate base, as shown on Audit Exhibit SGS-1, is allocated among the various classes of debt and equity according to the respective ratios as computed using CWS's parent company's capital structure as of September 30, 2005.

ORS computed the amount of total income for return necessary to cover an embedded cost rate of 6.42% on long-term debt. The remainder of total income for return for combined operations produces a return of 5.86% to common equity after accounting and pro forma adjustments. The overall cost of capital was 6.20%. Such overall cost equals the rate of return on rate base shown on Audit Exhibit SGS-1.

As Adjusted Present income available to common equity amounts to \$385,420 and the return on common equity amounts to 5.36%. Overall cost of capital as shown in this exhibit equals 5.98%. Such overall cost of capital equals the rate of return on rate base on Audit Exhibit SGS-1.

As a compromise, ORS and CWS agree to additional net revenues of \$474,117. Income available to common equity increases to \$675,841 and return on common equity increases to 9.40% as agreed in the settlement agreement between ORS and CWS. The overall cost of capital as shown in this exhibit equals 7.64%. Such overall cost of capital equals the rate of return on rate base on Audit Exhibit SGS-1.

Included in this exhibit is the Return on Common Equity as allocated to CWS's water and sewer operations.

AUDIT EXHIBIT SGS-10: INCOME STATEMENT

CWS's Income Statement for the test year ending September 30, 2005 is reflected in this exhibit. ORS verified the income statement to the books and records of CWS.

AUDIT EXHIBIT SGS-11: BALANCE SHEET

Shown in this exhibit is the Balance Sheet of CWS as of September 30, 2005. ORS verified the balances contained in this statement to the books and records of CWS.

Carolina Water Service, Inc.
Operating Experience, Rate Base and Rates of Return
For the Test Year Ended September 30, 2005
Combined Operations

(1) Description	(2) Per Company Books	(3) Additional Adjustments 2004-357-W/S	(4) Accounting and Pro Forma Adjustments	(5) After Acct. Pro Forma Adjustments	(6) Dorchester County Transfer	(7) As Adjusted Present	(8) Proposed Increase	(9) After Proposed Increase
Operating Revenues:								
Service Revenue - Water	1,887,158	35,235 (A)	1,922,393	17,398 (I)	1,939,791	1,827,522	146,128 (Z)	2,073,851
Service Revenue - Sewer	4,098,970	858,970 (A)	4,755,039	(34,722) (I)	4,720,287	4,401,139	332,088 (Z)	4,733,225
Miscellaneous Revenues	114,816	0	114,816	0	114,816	104,052	0	104,052
Uncollectible Accounts	(51,219)	(6,014) (B)	(57,233)	151 (J)	(57,082)	(54,233)	(4,098) (AA)	(58,331)
Total Operating Revenues	6,047,725	887,260	6,734,985	(17,173)	6,717,812	6,378,480	474,117	6,852,597
Operating Expenses:								
Maintenance Expenses	2,961,476	0	2,961,476	33,866 (K)	2,995,142	2,833,350	0	2,833,350
General Expenses	962,267	0	962,267	147,139 (L)	1,109,406	1,070,936	0	1,070,936
Depreciation Expense	652,759	0	652,759	45,172 (M)	697,931	674,608	0	674,608
Extraordinary Retirement	0	22,358 (C)	22,358	0	22,358	22,358	0	22,358
Taxes Other Than Income	1,286,732	(758) (D)	1,285,974	(508,143) (N)	777,831	762,721	5,381 (AB)	768,102
Income Taxes	18,164	180,802 (E)	210,066	59,341 (O)	269,407	236,553	178,292 (AC)	415,845
Amortization of Investment Tax Credit	(8,652)	0	(8,652)	0	(8,652)	(8,652)	0	(8,652)
Amortization of PAA	(12,302)	0	(12,302)	0	(12,302)	(9,861)	0	(9,861)
Amortization of CIAC	(259,823)	0	(259,823)	(2,120) (P)	(261,943)	(252,339)	0	(252,339)
Total Operating Expenses	5,801,421	212,500	5,813,921	(224,945)	5,588,976	5,329,474	184,673	5,514,147
Total Operating Income	446,304	474,760	921,064	207,772	1,128,838	1,049,006	289,444	1,338,450
Interest During Construction	6,624	0	6,624	(9,624) (Q)	0	0	0	0
Customer Growth	0	0	0	3,783 (R)	3,783	3,534	877 (AD)	4,511
Net Income for Return	452,928	474,760	927,688	204,931	1,132,619	1,052,540	280,421	1,342,961
Original Cost Rate Base:								
Gross Plant in Service	39,008,789	(1,198,783) (F)	37,813,036	2,704,777 (S)	40,517,813	(1,554,861) (Y10)	0	38,962,952
Accumulated Depreciation	(5,210,472)	32,718 (G)	(5,177,754)	219,881 (T)	(4,957,773)	181,631 (Y11)	0	(4,776,242)
Net Plant in Service	33,798,317	(1,166,065)	32,635,282	2,924,758	35,590,040	(1,373,330)	0	34,186,710
Cash Working Capital	490,468	0	490,468	22,801 (U)	513,069	(25,033) (Y12)	0	488,036
Water Service Corporation - Rate Base	105,057	0	105,057	0	105,057	(4,384) (Y13)	0	100,673
Advances in Aid of Construction	(1,600)	0	(1,600)	0	(1,600)	0	0	(1,600)
Contributions in Aid of Construction	(15,211,431)	0	(15,211,431)	2,120 (V)	(15,209,311)	540,237 (Y14)	0	(14,669,074)
Plant Acquisition Adjustment	(467,341)	0	(467,341)	0	(467,341)	(375,524) (Y15)	0	(842,865)
Accumulated Deferred Income Taxes	(1,753,698)	0	(1,753,698)	0	(1,753,698)	63,333 (Y16)	0	(1,690,365)
Customer Deposits	(456,854)	0	(456,854)	(666) (W)	(457,520)	1,208 (Y17)	0	(456,312)
Total Rate Base	18,503,928	(1,164,045)	18,339,883	2,948,813	18,288,696	(706,152)	0	17,582,544
Return on Rate Base	2.74%		6.05%		6.18%	5.89%	0	7.64%
Interest Expense	1,164,394	(582,457) (H)	581,937	111,978 (X)	693,813	(28,783) (Y18)	0	667,120

Carolina Water Service, Inc.
Operating Experience, Rate Base and Ratios of Return
For the Test Year Ended September 30, 2005
Water Operations

Description	(1) Per Company Books	(2) Additional Adjustments Docket No. 2004-357-W/S	(3) Adjusted Per Books	(4) Accounting and Pro Forma Adjustments	(5) After Acct. and Pro Forma Adjustments	(6) Dorchester County Transfer	(7) As Adjusted Present	(8) Proposed Increase	(9) After Proposed Increase
Operating Revenues:									
Service Revenue - Water	1,887,158	35,235 (A)	1,922,393	17,398 (I)	1,939,791	(12,269)	1,927,522	146,129 (Z)	2,073,651
Miscellaneous Revenues	33,573	0	33,573	0	33,573	(474)	33,099	0	33,099
Uncollectible Accounts	(15,980)	(360) (B)	(16,340)	(148) (J)	(16,488)	104	(16,384)	(1,242) (AA)	(17,626)
Total Operating Revenues	1,904,751	34,875	1,939,626	17,250	1,956,876	(12,639)	1,944,237	144,887	2,089,124
Operating Expenses:									
Maintenance Expenses	676,829	0	676,829	12,894 (K)	689,723	(9,327) (Y2)	680,396	0	680,396
General Expenses	368,548	0	368,548	56,353 (L)	424,901	(1,560) (Y3)	423,341	0	423,341
Depreciation Expense	219,525	0	219,525	(8,852) (M)	210,673	(1,290) (Y4)	211,963	0	211,963
Extraordinary Refinement	0	22,356 (C)	22,356	0	22,356	0	22,356	0	22,356
Taxes Other Than Income	488,236	(8,163) (D)	480,073	(194,348) (N)	285,725	(2,256) (Y5)	283,469	1,844 (AB)	285,113
Income Taxes	5,979	33,912 (E)	39,891	51,021 (O)	90,912	305 (Y6)	91,217	54,790 (AC)	146,007
Amortization of Investment Tax Credit	(2,644)	0	(2,644)	0	(2,644)	0	(2,644)	0	(2,644)
Amortization of PAA	(5,186)	0	(5,186)	0	(5,186)	516 (Y7)	(4,670)	0	(4,670)
Amortization of CIAQ	(76,851)	0	(76,851)	(329) (F)	(77,180)	23 (Y8)	(77,157)	0	(77,157)
Total Operating Expenses	1,874,434	48,105	1,722,539	(81,261)	1,641,278	(11,039)	1,630,189	58,434	1,688,623
Total Operating Income	230,317	(13,230)	217,087	96,511	315,598	(1,550)	314,048	88,453	402,501
Interest During Construction	1,978	0	1,978	(1,979) (Q)	0	0	0	0	0
Customer Growth	0	0	0	1,262 (R)	1,262	(6) (Y9)	1,256	354 (AD)	1,610
Net Income for Return	232,296	(13,230)	219,066	97,794	316,860	(1,556)	315,304	88,807	404,111
Original Cost Rate Base:									
Gross Plant in Service	12,144,562	(642,890) (F)	11,501,572	288,493 (S)	11,800,065	(86,009) (Y10)	11,714,056	0	11,714,056
Accumulated Depreciation	(2,048,443)	31,767 (G)	(2,016,676)	117,889 (T)	(1,898,687)	8,395 (Y11)	(1,890,292)	0	(1,890,292)
Net Plant in Service	10,096,119	(611,223)	9,484,896	416,482	9,901,378	(77,614)	9,823,764	0	9,823,764
Cash Working Capital	130,672	0	130,672	8,858 (U)	139,530	(1,048) (Y12)	138,482	0	138,482
Water Service Corporation - Rate Base	40,232	0	40,232	0	40,232	(1,678) (Y13)	38,553	0	38,553
Advances in Aid of Construction	(800)	0	(800)	0	(800)	0	(800)	0	(800)
Contributions in Aid of Construction	(4,535,743)	0	(4,535,743)	329 (V)	(4,535,414)	1,958 (Y14)	(4,533,456)	0	(4,533,456)
Plant Acquisition Adjustment	(210,851)	0	(210,851)	0	(210,851)	18,963 (Y15)	(192,188)	0	(192,188)
Accumulated Deferred Income Taxes	(708,923)	0	(708,923)	0	(708,923)	4,725 (Y16)	(704,198)	0	(704,198)
Customer Deposits	(174,975)	0	(174,975)	(255) (W)	(175,230)	1,208 (Y17)	(174,022)	0	(174,022)
Total Rate Base	4,935,731	(611,223)	4,324,508	425,212	4,449,720	(53,787)	4,395,933	0	4,395,933
Return on Rate Base	5.01%		5.44%		7.12%		7.17%		8.18%
Interest Expense	347,633	(194,945) (H)	152,688	16,144 (X)	168,832	(2,041) (Y18)	166,791	0	166,791

Carolina Water Service, Inc.
Operating Experience, Rate Base and Rates of Return
For the Test Year Ended September 30, 2005
Sewer Operations

Description	(1) Per Company Books \$	(2) Additional Adjustments 2004-2005 \$	(3) Adjusted Per Books \$	(4) Accounting and Pro Forma Adjustments \$	(5) After Acct. and Pro Forma Adjustments \$	(6) Dorchester County Transfer \$	(7) As Adjusted Present \$	(8) Proposed Increase \$	(9) After Proposed Increase \$
Operating Revenues:									
Service Revenue - Sewer	4,096,970	658,039 (A)	4,755,009	(34,722) (I)	4,720,287	(319,148)	4,401,139	332,086 (Z)	4,733,225
Miscellaneous Revenues	81,243	0	81,243	0	81,243	(10,290)	70,953	0	70,953
Uncollectible Accounts	(35,238)	(5,654) (B)	(40,893)	289 (J)	(40,594)	2,745	(37,849)	(2,856) (AA)	(40,705)
Total Operating Revenues	4,142,974	652,385	4,795,359	(34,423)	4,760,936	(326,693) (Y1)	4,434,243	328,230	4,763,473
Operating Expenses:									
Maintenance Expenses	2,284,647	0	2,284,647	20,772 (K)	2,305,419	(154,965) (Y2)	2,150,454	0	2,150,454
General Expenses	593,719	0	593,719	90,766 (L)	684,505	(39,908) (Y3)	647,597	0	647,597
Depreciation Expense	433,234	0	433,234	52,024 (M)	485,258	(22,033) (Y4)	463,225	0	463,225
Extraordinary Retirement	0	0 (C)	0	0	0	0	0	0	0
Taxes Other Than Income	798,496	7,405 (D)	805,901	(313,795) (N)	492,106	(12,854) (Y5)	479,252	3,737 (AB)	482,989
Income Taxes	13,185	158,980 (E)	170,175	8,320 (O)	178,495	(33,159) (Y6)	145,336	124,502 (AC)	269,838
Amortization of Investment Tax Credit	(6,208)	0	(6,208)	0	(6,208)	0	(6,208)	0	(6,208)
Amortization of PAA	(7,114)	0	(7,114)	0	(7,114)	1,925 (Y7)	(5,189)	0	(5,189)
Amortization of CIAC	(182,972)	0	(182,972)	(1,791) (F)	(184,763)	9,581 (Y8)	(175,182)	0	(175,182)
Total Operating Expenses	3,928,987	164,385	4,091,382	(143,694)	3,947,698	(248,413)	3,699,285	128,239	3,827,524
Total Operating Income	215,987	487,990	703,977	106,261	813,238	(78,280)	734,958	200,991	935,948
Interest During Construction	4,645	0	4,645	(4,645) (Q)	0	0	0	0	0
Customer Growth	0	0	0	2,521 (R)	2,521	(243) (Y9)	2,278	623 (AD)	2,901
Net Income for Return	220,632	487,990	708,622	107,137	815,759	(78,523)	737,236	201,614	938,850
Original Cost Rate Base:									
Gross Plant in Service	26,865,237	(553,773) (F)	26,311,464	2,406,284 (S)	28,717,748	(1,468,852) (Y10)	27,248,896	0	27,248,896
Accumulated Depreciation	(3,162,025)	951 (G)	(3,161,074)	101,892 (T)	(3,059,086)	173,136 (Y11)	(2,885,950)	0	(2,885,950)
Net Plant in Service	23,703,208	(552,822)	23,150,386	2,508,276	25,658,662	(1,295,716)	24,362,946	0	24,362,946
Cash Working Capital	359,796	0	359,796	13,945 (U)	373,741	(23,995) (Y12)	349,756	0	349,756
Water Service Corporation - Rate Base	64,825	0	64,825	64,825 (V)	0	(2,705) (Y13)	62,120	0	62,120
Advances in Aid of Construction	(900)	0	(900)	0	(900)	0	(900)	0	(900)
Contributions in Aid of Construction	(10,675,688)	0	(10,675,688)	1,791 (V)	(10,673,897)	538,279 (Y14)	(10,135,618)	0	(10,135,618)
Plant Acquisition Adjustment	(256,490)	0	(256,490)	0	(256,490)	73,154 (Y15)	(183,336)	0	(183,336)
Accumulated Deferred Income Taxes	(1,044,775)	0	(1,044,775)	0	(1,044,775)	58,008 (Y16)	(986,767)	0	(986,767)
Customer Deposits	(281,878)	0	(281,878)	(411) (W)	(282,289)	0 (Y17)	(282,290)	0	(282,290)
Total Rate Base	11,989,197	(552,822)	11,436,375	2,523,601	13,959,976	(652,385)	13,307,591	0	13,307,591
Return on Rate Base	1.86%		6.26%		5.89%		5.59%		7.12%
Interest Expense	816,781	(387,512) (H)	429,269	95,832 (X)	525,081	(24,752) (Y18)	500,329	0	500,329

Carolina Water Service, Inc.
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended September 30, 2005

<u>Description</u>	<u>Combined</u> \$	<u>Water</u> \$	<u>Sewer</u> \$
<u>Additional Adjustments From Docket No. 2004-357-W/S</u>			
<u>(A) Revenue</u>			
1 ORS and CWS propose to adjust revenues to reflect an entire year of consumption and billing units at present rates ordered in Docket No. 2005-357-W/S.			
Per ORS	893,274	35,235	858,039
Per CWS	893,278	35,235	858,043
<u>(B) Uncollectible Accounts</u>			
2 ORS proposes to adjust for uncollectible accounts associated with the additional revenues from Docket No. 2004-357-W/S using an uncollectible rate of .85% for total water revenue of \$1,922,393 and .86% for total sewer revenue of \$4,765,009. ORS computed a total uncollectible amount of (\$57,233) less the per book amount of (\$51,219) for an adjustment of (\$6,014). CWS used the same uncollectible rates applied to additional water and sewer revenue from Docket No. 2004-357-W/S.			
Per ORS	(6,014)	(360)	(5,654)
Per CWS	(5,958)	(298)	(5,660)
<u>(C) Depreciation & Extraordinary Retirement</u>			
3 ORS proposes to adjust for the extraordinary retirement of wells of \$29,824 and removal of depreciation expense (\$7,568) as approved in previous CWS rate cases. CWS inadvertently left these amounts off the schedules.			
Per ORS	22,356	22,356	0
Per CWS	0	0	0
<u>(D) Taxes Other Than Income</u>			
4 ORS and CWS propose to adjust for Utility/Commission and Gross Receipts taxes associated with the additional revenues from Docket No. 2004-357-W/S.			
Per ORS	7,801	398	7,405
Per CWS	17	1	16
5 ORS proposes to remove property taxes associated with the retired wells as approved in previous CWS rate cases.			
Per ORS	(8,559)	(8,559)	0
Per CWS	0	0	0
<u>Total Taxes Other Than Income - Per ORS</u>	<u>(758)</u>	<u>(8,163)</u>	<u>7,405</u>
<u>(E) Income Taxes</u>			
6 ORS and CWS propose to adjust for federal and state income taxes associated with the additional revenues and other adjustments from Docket No. 2004-357-W/S.			
Per ORS	190,902	33,912	156,990
Per CWS	199,180	39,364	159,816

Carolina Water Service, Inc.
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended September 30, 2005

<u>Description</u>	<u>Combined</u>	<u>Water</u>	<u>Sewer</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>
<u>(F) Gross Plant In Service</u>			
7 ORS and CWS propose to adjust for removal of wells (\$289,237) and plant sample items (\$8,957) as approved in previous CWS rate cases			
Per ORS	(308,194)	(302,668)	(5,526)
Per CWS	(308,194)	(302,668)	(5,526)
8 ORS and CWS propose to adjust for excess book value carried forward from the last rate case to the end of the test year			
Per ORS	(888,569)	(340,322)	(548,247)
Per CWS	(888,569)	(340,322)	(548,247)
Total Gross Plant In Service - Per ORS	<u>(1,196,783)</u>	<u>(642,990)</u>	<u>(653,773)</u>
<u>(G) Accumulated Depreciation</u>			
9 ORS and CWS propose to adjust accumulated depreciation for the removal of wells (\$31,767) and plant sample item (\$951) as adjusted in the last rate case to the end of the test year			
Per ORS	<u>32,718</u>	<u>31,767</u>	<u>951</u>
Per CWS	<u>32,718</u>	<u>31,767</u>	<u>951</u>
<u>(H) Interest Expense</u>			
10 ORS and CWS propose to adjust for interest expense associated with the previous adjustments related to Docket No. 2004-357-W/S using the long-term debt ratio of 59.10% and the embedded cost of debt of 6.42%.			
Per ORS	<u>(582,457)</u>	<u>(194,945)</u>	<u>(387,512)</u>
Per CWS	<u>(582,457)</u>	<u>(194,945)</u>	<u>(387,512)</u>
<u>Accounting and Pro Forma Adjustments</u>			
<u>(I) Operating Revenues</u>			
11 ORS and CWS propose to adjust operating revenues to reflect current customers at current rates as computed by ORS's water and wastewater department.			
Per ORS	<u>(17,324)</u>	<u>17,398</u>	<u>(34,722)</u>
Per CWS	<u>(17,310)</u>	<u>17,394</u>	<u>(34,704)</u>
<u>(J) Uncollectible Accounts</u>			
12 ORS and CWS propose to adjust uncollectible accounts for the effect of the pro forma revenue adjustments. ORS and CWS used uncollectible rates of .85% for water and .86% for sewer.			
Per ORS	<u>151</u>	<u>(148)</u>	<u>299</u>
Per CWS	<u>151</u>	<u>(147)</u>	<u>298</u>

Carolina Water Service, Inc.
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended September 30, 2005

<u>Description</u>	<u>Combined</u>	<u>Water</u>	<u>Sewer</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>
<u>(K) Maintenance Expenses</u>			
13 ORS and CWS propose to adjust operators' salaries. ORS proposes to annualize operators' salary expenses using wage rates as of May 2006 and wage allocation factors as of September 2005. ORS did not include a 4% cost of living increase, since supporting documentation was not received in sufficient time to allow for its audit. CWS included a 4% cost of living increase			
Per ORS	68,066	26,069	41,997
Per CWS	101,662	38,888	62,764
14 ORS and CWS propose to adjust Operating Expense Charged to Plant to reflect the proposed increase in the wage adjustment. ORS computed a factor of 39.30% using actual test year data. CWS used a capitalization factor of 35.16% which was based on annualized wages.			
Per ORS	(34,400)	(13,175)	(21,225)
Per CWS	(7,219)	(2,765)	(4,454)
<u>Total Maintenance Expenses - Per ORS</u>	<u>33,666</u>	<u>12,894</u>	<u>20,772</u>
<u>(L) General Expenses</u>			
15 CWS and ORS propose to adjust office salary expenses. ORS annualized salaries using wage rates as of May 2006 and wage allocations as of September 2005. ORS did not include a 4% cost of living increase, since supporting documentation was not received in sufficient time to allow for its audit.			
Per ORS	40,752	15,608	25,144
Per CWS	70,651	30,565	40,286
16 ORS proposes to include current rate case expenses, unamortized rate case expenses, other expenses from Docket No. 2004-357-W/S, and CWS's portion of the Utilities Management Audit costs, all totaling \$485,774. This amount is amortized over a three-year period for an amount of \$161,925 less the per book amount of \$23,117 for an adjustment of \$138,808. ORS adjusted for actual expenses incurred at the end of the audit.			
Per ORS	138,808	53,163	85,645
Per CWS	106,849	40,923	65,926
17 ORS and CWS propose to adjust for pension and other benefits associated with the wage increase.			
Per ORS	13,888	5,319	8,569
Per CWS	16,298	6,233	10,065

Carolina Water Service, Inc.
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended September 30, 2005

<u>Description</u>	<u>Combined</u>	<u>Water</u>	<u>Sewer</u>
	\$	\$	\$
18 ORS and CWS propose to remove DHEC fines of (\$13,600) ORS also proposes to remove other legal fees associated with lobbying of (\$33,375).			
Per ORS	(46,976)	(17,992)	(28,983)
Per CWS	(13,600)	(5,209)	(8,391)
19 ORS proposes to annualize interest on customer deposits using the test year ending balance and the approved interest rate of 3.50%			
Per ORS	666	255	411
Per CWS	0	0	0
Total General Expenses - Per ORS	147,139	56,353	90,768

(M) Depreciation Expense

20 CWS proposes to annualize depreciation expense using
estimated plant additions. ORS proposes to annualize
depreciation expense as of June 2006 for known and
measurable net plant in service. See Audit Exhibit SGS-5 for
details.

Per ORS	45,172	(6,852)	52,024
Per CWS	104,609	15,248	89,361

(N) Taxes Other Than Income

21 CWS and ORS propose to adjust for payroll taxes
associated with the wage adjustment.

Per ORS	5,621	2,153	3,468
Per CWS	5,689	3,324	5,385

22 ORS proposes to adjust for Utility/Commission and gross
receipts taxes after accounting and pro forma adjustments.

Per ORS	(195)	186	(391)
Per CWS	0	1	0

23 ORS and CWS propose to remove a tax accrual for property
taxes to reflect actual test year expense.

Per ORS	(513,569)	(196,697)	(316,872)
Per CWS	(513,569)	(196,697)	(316,872)

Total Taxes Other Than Income - Per ORS	(508,143)	(194,348)	(313,795)
--	------------------	------------------	------------------

(O) Income Taxes - As Adjusted

24 ORS and CWS propose to adjust income taxes after
accounting and pro forma adjustments. See Audit Exhibit
SGS - 6.

Per ORS	59,341	51,021	8,320
Per CWS	195,114	64,138	130,976

Carolina Water Service, Inc.
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended September 30, 2005

<u>Description</u>	<u>Combined</u>	<u>Water</u>	<u>Sewer</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>
<u>(P) Amortization of Contributions in Aid of Construction</u>			
25 ORS and CWS proposes to annualize amortization of CIAC as of September 30, 2005. The purpose of this adjustment is to properly calculate amortization expense associated with CIAC. ORS and CWS amortized CIAC using a 1.5% rate.			
Per ORS	(2,120)	(329)	(1,791)
Per CWS	22,519	12,205	10,314
<u>(Q) Interest During Construction (IDC)</u>			
26 ORS and CWS propose to eliminate Interest During Construction (IDC) for rate making purposes. ORS and CWS did not include Construction Work in Progress in rate base and therefore IDC is eliminated as an addition to net income.			
Per ORS	(6,624)	(1,979)	(4,645)
Per CWS	(6,624)	(1,979)	(4,645)
<u>(R) Customer Growth</u>			
27 ORS proposes to adjust for customer growth after accounting and pro forma adjustments. ORS used the latest available number of customers as of May 31, 2006. Plant additions have been included to June 2006. See Audit Exhibit SGS -7.			
Per ORS	3,783	1,262	2,521
Per CWS	0	0	0
<u>(S) Gross Plant in Service</u>			
28 ORS and CWS propose to adjust for pro forma plant additions and retirements. ORS's adjustment is based on known and measurable plant in service including general ledger additions, capitalized time and pro forma plant additions and retirements as of June 2006. CWS's adjustment is based on estimated amounts.			
Per ORS	2,670,377	285,318	2,385,059
Per CWS	3,363,037	506,328	2,856,709
29 ORS proposes to capitalize wages, taxes, and benefits as a result of the payroll adjustment. ORS capitalized 39.30% of the wage adjustment.			
Per ORS	34,400	13,175	21,225
Per CWS	0	0	0
<u>Total Gross Plant in Service - Per ORS</u>	<u>2,704,777</u>	<u>298,493</u>	<u>2,406,284</u>

Carolina Water Service, Inc.
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended September 30, 2005

<u>Description</u>	<u>Combined</u>	<u>Water</u>	<u>Sewer</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>
<u>(T) Accumulated Depreciation</u>			
30 CWS proposes to adjust accumulated depreciation using estimated plant additions and retirements. ORS proposes to adjust accumulated depreciation for the depreciation expense adjustment of (\$45,172) and retirements from October 1, 2005 - June 2006 for \$265,153 which includes \$223,473 for general ledger retirements and \$41,680 for retirement of a water project.			
Per ORS	219,981	117,889	101,992
Per CWS	225,514	149,168	76,346
<u>(U) Cash Working Capital</u>			
31 CWS and ORS propose to adjust Cash Working Capital after accounting and pro forma adjustments. See Audit Exhibit SGS - 8.			
Per ORS	22,801	8,650	13,945
Per CWS	35,480	13,581	21,899
<u>(V) Contributions in Aid of Construction</u>			
32 ORS proposes to adjust the CIAC to reflect the amortization at September 30, 2005.			
Per ORS	2,120	329	1,791
Per CWS	0	0	0
<u>(W) Customer Deposits</u>			
33 ORS proposes to adjust interest on Customer Deposits using the balance at September 30, 2005.			
Per ORS	(666)	(255)	(411)
Per CWS	0	0	0
<u>(X) Interest Expense</u>			
34 ORS and CWS propose to adjust interest on debt using a 59.10% / 40.90% debt / equity ratio and a 6.42% cost of debt. ORS proposes to compute allowable interest expense after accounting and pro forma adjustments. See Audit Exhibit SGS - 9.			
Per ORS	111,976	18,144	95,832
Per CWS	137,482	25,382	112,100
<u>Dorchester County Transfer - King's Grant, Teal on the Ashley, and Plantation Ridge Subdivisions</u>			
<u>(Y1) Revenue</u>			
35 ORS proposes to remove service revenues			
Per ORS	(331,417)	(12,269)	(319,148)
Per CWS	0	0	0
36 ORS proposes to remove miscellaneous revenues.			
Per ORS	(10,764)	(474)	(10,290)
Per CWS	0	0	0

Carolina Water Service, Inc.
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended September 30, 2005

<u>Description</u>	<u>Combined</u>	<u>Water</u>	<u>Sewer</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>
37 ORS proposes to adjust uncollectible revenue to reflect the removal of revenues.			
Per ORS	2,649	104	2,745
Per CWS	0	0	0
<u>Total Operating Revenues (Y1) - Per ORS</u>	<u>(339,332)</u>	<u>(12,639)</u>	<u>(326,693)</u>
(Y2) Maintenance Expenses			
38 ORS proposes to remove per book maintenance expenses			
Per ORS	(123,130)	(5,126)	(118,004)
Per CWS	0	0	0
39 ORS proposes to remove Operator's salaries.			
Per ORS	(40,451)	(1,780)	(38,671)
Per CWS	0	0	0
40 ORS proposes to remove Expenses Charged to Plant for Operator's salaries.			
Per ORS	1,789	79	1,710
Per CWS	0	0	0
<u>Total Maintenance Expenses (Y2) - Per ORS</u>	<u>(161,792)</u>	<u>(6,827)</u>	<u>(154,965)</u>
(Y3) General Expenses			
41 ORS proposes to remove per book general expenses			
Per ORS	(3,242)	(10)	(3,232)
Per CWS	0	0	0
42 ORS proposes to remove Office salaries			
Per ORS	(7,939)	(349)	(7,590)
Per CWS	0	0	0
43 ORS proposes to remove pensions and benefits for operators and office employees			
Per ORS	(8,537)	(376)	(8,161)
Per CWS	0	0	0
44 ORS proposes to remove WSC expenses allocated from the corporate office.			
Per ORS	(18,750)	(825)	(17,925)
Per CWS	0	0	0
<u>Total General Expenses - (Y3) - Per ORS</u>	<u>(38,468)</u>	<u>(1,560)</u>	<u>(36,908)</u>
(Y4) Depreciation Expense			
45 ORS proposes to remove depreciation expense			
Per ORS	(23,323)	(1,290)	(22,033)
Per CWS	0	0	0

Carolina Water Service, Inc.
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended September 30, 2005

<u>Description</u>	<u>Combined</u>	<u>Water</u>	<u>Sewer</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>
(Y5) Taxes Other Than Income			
46 ORS proposes to remove per book property taxes.			
Per ORS	(7,185)	(1,933)	(5,232)
Per CWS	0	0	0
47 ORS proposes to remove payroll taxes for the wages associated operators and office employees.			
Per ORS	(4,095)	(180)	(3,915)
Per CWS	0	0	0
48 ORS proposes to remove gross receipts taxes			
Per ORS	(3,850)	(143)	(3,707)
Per CWS	0	0	0
Total Taxes Other Than Income (Y5) - Per ORS	(16,110)	(2,256)	(12,854)
(Y6) Income Taxes			
49 ORS proposes to show the income tax effects of the proposed transfer.			
Per ORS	(32,854)	305	(33,159)
Per CWS	0	0	0
(Y7) Amortization of Purchase Acquisition Adjustment			
50 ORS proposes to remove the amortization for the per book purchase acquisition adjustment			
Per ORS	2,441	516	1,925
Per CWS	0	0	0
(Y8) Amort. of Contributions in Aid of Const (CIAC)			
51 ORS proposes to remove the per book amortization of CIAC.			
Per ORS	9,604	23	9,581
Per CWS	0	0	0
(Y9) Customer Growth			
52 ORS proposes to remove the customer growth component associated with the proposed transfer. The computation is shown in Audit Exhibit SGS - 7			
Per ORS	(249)	(6)	(243)
Per CWS	0	0	0

Carolina Water Service, Inc.
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended September 30, 2005

<u>Description</u>	<u>Combined</u>	<u>Water</u>	<u>Sewer</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>
(Y10) Plant in Service			
53 ORS proposes to remove plant in service as of June 2006.			
Per ORS	(1,554,861)	(88,009)	(1,468,852)
Per CWS	0	0	0
(Y11) Accumulated Depreciation			
54 ORS proposes to remove accumulated depreciation as of June 2006.			
Per ORS	181,531	8,395	173,136
Per CWS	0	0	0
(Y12) Cash Working Capital			
55 ORS proposes to remove cash working capital associated with the proposed transfer. See Audit Exhibit SGS - 8			
Per ORS	(25,033)	(1,048)	(23,985)
Per CWS	0	0	0
(Y13) Water Service Corporation (WSC) - Rate Base			
56 ORS proposes to remove the WSC rate base associated with the proposed transfer.			
Per ORS	(4,384)	(1,679)	(2,705)
Per CWS	0	0	0
(Y14) Contributions in Aid of Construction (CIAC)			
57 ORS proposes to remove the per book net CIAC associated with the proposed transfer.			
Per ORS	540,237	1,958	538,279
Per CWS	0	0	0
(Y15) Plant Acquisition Adjustment (PAA)			
58 ORS proposes to remove the per book net PAA associated with the proposed transfer.			
Per ORS	91,817	18,663	73,154
Per CWS	0	0	0
(Y16) Accumulated Deferred Income Taxes			
59 ORS proposes to remove the per book Accumulated Deferred Income Taxes as of September 30, 2005 associated with the proposed transfer.			
Per ORS	63,333	4,725	58,608
Per CWS	0	0	0
(Y17) Customer Deposits			
60 ORS proposes to remove the per book Customer Deposits associated with the proposed transfer			
Per ORS	1,208	1,208	0
Per CWS	0	0	0

Carolina Water Service, Inc.
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended September 30, 2005

<u>Description</u>	<u>Combined</u>	<u>Water</u>	<u>Sewer</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>
<u>(Y18) Interest Expense</u>			
61 ORS proposes to adjust interest expense for the effects of the proposed transfer.			
Per ORS	(26,793)	(2,041)	(24,752)
Per CWS	0	0	0
<u>(Z) Operating Revenues - Proposed Increase</u>			
62 ORS and CWS propose to adjust operating revenues for the proposed increase per the settlement agreement between ORS and CWS			
Per Settlement Agreement	478,215	146,129	332,086
Per CWS	986,265	196,713	789,552
<u>(AA) Uncollectible Accounts - Proposed Increase</u>			
63 ORS and CWS propose to adjust Uncollectible Accounts expense for the proposed revenue using an uncollectible rate of .85% for water and .86% for sewer			
Per Settlement Agreement	(4,098)	(1,242)	(2,856)
Per CWS	(8,285)	(1,666)	(6,619)
<u>(AB) Taxes Other Than Income - Proposed Increased</u>			
64 ORS and CWS propose to adjust utility/commission tax and gross receipts taxes for the proposed revenue using a factor of .011254 (.0082524 for utility/commission and .003 department for revenue gross receipts)			
Per Settlement Agreement	5,381	1,644	3,737
Per CWS	10,854	2,210	8,644
<u>(AC) Income Taxes - Proposed Increase</u>			
65 CWS records income taxes using current tax rates on calculated taxable income. ORS proposes to compute income taxes after the proposed increase.			
Per Settlement Agreement	179,292	54,790	124,502
Per CWS	557,390	137,889	419,491
<u>(AD) Customer Growth</u>			
66 ORS proposes to adjust customer growth for the effect of the proposed increase. ORS used the latest customers numbers as of May 2006. Plant additions have been included through June 2006. See Audit Exhibit SGS -7			
Per Settlement Agreement	977	354	623
Per CWS	0	0	0

Carolina Water Service, Inc.
Depreciation and Amortization Expense Adjustment
Test Year Ended September 30, 2005

	<u>Combined</u> \$	<u>Water</u> \$	<u>Sewer</u> \$
<u>Gross Plant @ September 30, 2005</u>	39,009,799	12,144,562	26,865,237
ADD:			
Pro Forma Projects, Capitalized Time, and General Ledger Additions and Retirements	2,704,777	298,493	2,406,284
LESS:			
Organization Expense @ June 2006	111,594	82,784	28,810
Land @ June 2006	291,237	180,189	111,048
Vehicles @ June 2006	457,531	175,234	282,297
Computers @ June 2006	62,602	23,977	38,625
Depreciable Utility Plant	40,791,612	11,980,871	28,810,741
Utility Plant Depreciation @ 1.5% (66.67 years)	611,874	179,713	432,161
Vehicles @ June 2006	457,531	175,234	282,297
Less: Fully Depreciated Vehicles	(80,897)	(30,984)	(40,913)
Depreciable Vehicles	376,634	144,250	232,384
Vehicle Depreciation @ 25% (4 years)	94,159	36,063	58,096
Computers @ June 2006	62,602	23,977	38,625
Less: Fully Depreciated Computers	(37,085)	(14,204)	(22,881)
Depreciable Computers	25,517	9,773	15,744
Computers Depreciation @ 25% (4 years)	6,379	2,443	3,936
WSC Allocated Depreciation	15,928	6,100	9,828
Regional Office Allocation Depreciation	(1,340)	(513)	(827)
Amortization of Excess Book Value	(29,069)	(11,133)	(17,936)
Total Depreciation	697,931	212,673	485,258
Less: Per Books Depreciation	652,759	219,525	433,234
ORS Adjustment	45,172	(6,852)	52,024
Company's Adjustment	104,609	15,248	89,361
Contributions in Aid of Construction			
CIAC @ 9-30-2005	(17,462,862)	(5,145,343)	(12,317,519)
Amortization %	1.50%	1.50%	1.50%
Amortization Amount	(261,943)	(77,180)	(184,763)
Per Book Amount	(259,823)	(76,851)	(182,972)
ORS Adjustment	(2,120)	(329)	(1,791)
Company's Adjustment	22,519	12,205	10,314

Carolina Water Service, Inc.
Computation of Income Taxes
For the Test Year Ended September 30, 2005

	As Adjusted - Present		
	Combined Operations	Water Operations	Sewer Operations
	\$	\$	\$
Operating Revenue As Adjusted	6,378,480	1,944,237	4,434,243
Operating Expenses As Adjusted	5,092,921	1,538,972	3,553,949
Net Operating Income Before Taxes	1,285,559	405,265	880,294
Less: Annualized Interest Expense	667,120	166,791	500,329
Taxable Income - State	618,439	238,474	379,965
State Income Taxes @ 5%	30,922	11,924	18,998
Taxable Income - Federal	587,517	226,550	360,967
Federal Income Taxes @ 35%	205,631	79,293	126,338
Total State and Federal Income Taxes	236,553	91,217	145,336
Less: Income Taxes After Acct. & Pro Forma Adjs.	269,407	90,912	178,495
Adjustment	(32,854)	305	(33,159)

	After Proposed Increase		
	Combined Operations	Water Operations	Sewer Operations
	\$	\$	\$
Operating Revenue After Proposed Increase	6,852,597	2,089,124	4,763,473
Operating Expenses After Proposed Increase	5,098,302	1,540,616	3,557,686
Net Operating Income Before Taxes	1,754,295	548,508	1,205,787
Less: Annualized Interest Expense	667,120	166,791	500,329
Taxable Income - State	1,087,175	381,717	705,458
State Income Taxes @ 5%	54,359	19,086	35,273
Taxable Income - Federal	1,032,816	362,631	670,185
Federal Taxes @ 35%	361,486	126,921	234,565
Total State and Federal Income Taxes	415,845	146,007	269,838
Less: Income Taxes As Adjusted -Present	236,553	91,217	145,336
Adjustment	179,292	54,790	124,502

Audit Exhibit SGS-7

**Carolina Water Service, Inc.
Customer Growth Computation
Test Year Ended September 30, 2005**

	(1) After Accounting & Pro Forma Adjustments	(2) Dorchester County Transfer	(3) As Adjusted Present	(4) Effect of Proposed Increase	(5) After Increase
Description	\$	\$	\$	\$	\$
Water Customer Growth	1,262	(6)	1,256	354	1,610
Sewer Customer Growth	2,521	(243)	2,278	623	2,901
Combined Customer Growth	3,783	(249)	3,534	977	4,511

Number of Customers:

Beginning	19,026	Formula:			
Ending	19,158	Ending - Average	=	66	= 0.35%
Average	19,092	Average		19,092	

Water Operations:

Net Operating Income	315,598	(1,550)	314,048	88,453	402,501
Growth Factor	0.40%	0.40%	0.40%	0.40%	0.40%
Customer Growth	1,262	(6)	1,256	354	1,610

Number of Customers:

Beginning	7,226	Formula:			
Ending	7,284	Ending - Average	=	29	= 0.40%
Average	7,255	Average		7,255	

Sewer Operations:

Net Operating Income	813,238	(78,280)	734,958	200,991	935,949
Growth Factor	0.31%	0.31%	0.31%	0.31%	0.31%
Customer Growth	2,521	(243)	2,278	623	2,901

Number of Customers:

Beginning	11,800	Formula:			
Ending	11,874	Ending - Average	=	37	= 0.31%
Average	11,837	Average		11,837	

Note: Combined Customer Growth equals Water plus Sewer Customer Growth
Beginning Customers @ 10/01/2004
Ending Customers @ 5/31/2006

Audit Exhibit SGS-8

**Carolina Water Service, Inc.
Cash Working Capital Allowance
For the Test Year Ended September 30, 2005**

<u>After Accounting and Pro Forma Adjustments</u>			
	<u>Combined Operations</u>	<u>Water Operations</u>	<u>Sewer Operations</u>
	\$	\$	\$
Maintenance - After Accounting and Pro Forma Adjs.	2,995,142	689,723	2,305,419
General - After Accounting and Pro Forma Adjs.	1,109,406	424,901	684,505
Total Expenses for Computation	4,104,548	1,114,624	2,989,924
Allowable Rate	12.50%	12.50%	12.50%
Computed Cash Working Capital - After Accounting and Pro Forma Adjs.	513,069	139,328	373,741
Cash Working Capital - Per Books	490,468	130,672	359,796
Cash Working Capital Adjustment - ORS	22,601	8,656	13,945
Cash Working Capital Adjustment - CWS	35,480	13,581	21,899

<u>As Adjusted - Present</u>			
	<u>Combined Operations</u>	<u>Water Operations</u>	<u>Sewer Operations</u>
	\$	\$	\$
Maintenance - As Adjusted Present	2,833,350	682,896	2,150,454
General - As Adjusted Present	1,070,938	423,341	647,597
Total Expenses for Computation	3,904,288	1,106,237	2,798,051
Allowable Rate	12.50%	12.50%	12.50%
Computed Cash Working Capital - As Adj. Present	488,036	138,280	349,756
Computed Cash Working Capital - As Adjusted	513,069	139,328	373,741
Cash Working Capital Adjustment - ORS	(25,033)	(1,048)	(23,985)

Carolina Water Service, Inc.
Return On Common Equity
Capital Structure at September 30, 2005

Description	Capital Structure	Combined				Combined				Combined			
		After Accounting & Pro Forma Adjustments				As Adjusted--Present				After Proposed Increase			
		Ratio	Rate	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate	Embedded Cost/Return	Overall Cost/Return
		%	\$	%	%	\$	\$	%	%	\$	\$	%	%
Long-Term Debt	136,789,585	59.10%	10,808,619	6.42%	3.79%	683,913	10,391,284	6.42%	3.79%	687,120	10,391,284	6.42%	3.79%
Common Equity	94,651,855	40.90%	7,480,077	5.85%	2.41%	438,706	7,191,260	5.36%	2.19%	385,420	7,191,260	5.40%	3.85%
Totals	231,441,440	100.00%	18,288,696		6.20%	1,122,619	17,582,544		5.98%	1,072,540	17,582,544		7.64%

Description	Capital Structure	Water				Water				Water			
		After Accounting & Pro Forma Adjustments				As Adjusted--Present				After Proposed Increase			
		Ratio	Rate	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate	Embedded Cost/Return	Overall Cost/Return
		%	\$	%	%	\$	\$	%	%	\$	\$	%	%
Long-Term Debt	136,789,585	59.10%	2,629,785	6.42%	3.79%	168,832	2,597,996	6.42%	3.79%	166,791	2,597,996	6.42%	3.79%
Common Equity	94,651,855	40.90%	1,819,935	8.13%	3.34%	148,028	1,797,937	8.26%	3.38%	148,513	1,797,937	13.20%	5.40%
Totals	231,441,440	100.00%	4,449,720		7.13%	316,860	4,395,933		7.17%	315,304	4,395,933		9.19%

Description	Capital Structure	Sewer				Sewer				Sewer			
		After Accounting & Pro Forma Adjustments				As Adjusted--Present				After Proposed Increase			
		Ratio	Rate	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate	Embedded Cost/Return	Overall Cost/Return
		%	\$	%	%	\$	\$	%	%	\$	\$	%	%
Long-Term Debt	136,789,585	59.10%	8,178,835	6.42%	3.79%	525,081	7,793,287	6.42%	3.79%	500,329	7,793,287	6.42%	3.79%
Common Equity	94,651,855	40.90%	5,860,141	5.14%	2.11%	290,678	5,393,324	4.38%	1.80%	286,907	5,393,324	8.13%	3.34%
Totals	231,441,440	100.00%	13,838,976		5.90%	815,759	13,186,611		5.59%	787,236	13,186,611		7.13%

Audit Exhibit SGS-9

Used Capital Structure of Parent Company @ 9/30/2005

Audit Exhibit SGS-10

Carolina Water Service, Inc.
Income Statement
Test Year Ended September 30, 2005

	Combined \$	Water \$	Sewer \$
<u>Operating Revenues</u>			
Service Revenues - Water	1,887,158	1,887,158	0
Service Revenues - Sewer	4,096,970	0	4,096,970
Miscellaneous Revenues	114,816	33,573	81,243
Uncollectible Accounts	(51,219)	(15,980)	(35,239)
<u>Total Operating Revenues</u>	<u>6,047,725</u>	<u>1,904,751</u>	<u>4,142,974</u>
<u>Maintenance Expenses</u>			
Salaries and Wages	709,832	271,866	437,966
Purchased Power	440,595	77,685	362,910
Purchased Sewer & Water	208,583	85,297	123,286
Maintenance and Repair	1,398,123	144,667	1,253,456
Maintenance Testing	55,346	11,455	43,891
Meter Reading	46,667	46,667	0
Chemicals	241,020	92,311	148,709
Transportation	80,815	30,952	49,863
Operating Exp. Charged to Plant	(346,115)	(132,562)	(213,553)
Outside Services - Other	126,608	48,491	78,117
<u>Total</u>	<u>2,961,474</u>	<u>676,829</u>	<u>2,284,645</u>
<u>General Expenses</u>			
Salaries and Wages	297,172	113,817	183,355
Office Supplies & Other Office Exp.	186,720	71,514	115,206
Regulatory Commission Exp.	23,117	8,854	14,263
Pension & Other Benefits	179,479	68,740	110,739
Rent	4,567	1,749	2,818
Insurance	156,268	59,851	96,417
Office Utilities	69,065	26,452	42,613
Miscellaneous	45,880	17,572	28,308
<u>Total</u>	<u>962,268</u>	<u>368,549</u>	<u>593,719</u>
Depreciation	652,759	219,525	433,234
Taxes Other Than Income	1,286,732	488,236	798,496
Income Taxes - Federal	46,978	14,657	32,321
Income Taxes - State	(27,814)	(8,678)	(19,136)
Amortization of ITC	(8,852)	(2,644)	(6,208)
Amortization of PAA	(12,302)	(5,188)	(7,114)
Amortization of CIAC	(259,823)	(76,851)	(182,972)
<u>Total</u>	<u>1,677,678</u>	<u>629,057</u>	<u>1,048,621</u>
<u>Total Operating Expenses</u>	<u>5,601,420</u>	<u>1,674,435</u>	<u>3,926,985</u>
<u>Net Operating Income</u>	<u>446,305</u>	<u>230,316</u>	<u>215,989</u>
Interest During Construction	(6,624)	(1,979)	(4,845)
Interest on Debt	1,164,394	347,633	816,761
<u>Net Income</u>	<u>(711,465)</u>	<u>(115,338)</u>	<u>(596,127)</u>

Audit Exhibit SGS-11

Carolina Water Service, Inc.
Balance Sheet
September 30, 2005

<u>Assets</u>	\$	\$	\$
Plant In Service			
Water	12,144,562		
Sewer	<u>26,865,237</u>		
Total		39,009,799	
Accumulated Depreciation - Water	(2,048,443)		
Accumulated Depreciation - Sewer	<u>(3,162,029)</u>		
Total		<u>(5,210,472)</u>	
Net Utility Plant			33,799,327
Plant Acquisition Adjustment - Water	(210,851)		
Plant Acquisition Adjustment - Sewer	<u>(256,480)</u>		
Total			(467,341)
Construction Work In Process - Water	54,597		
Construction Work In Process - Sewer	<u>864,675</u>		
Total			919,272
Current Assets			
Cash	956,545		
Accounts Receivable - Net	1,006,336		
Other Current Assets	<u>33,801</u>		
Total			1,996,682
Deferred Charges			<u>364,427</u>
	<u>Total Assets</u>		<u>36,612,367</u>
<u>Liabilities and Other Credits</u>			
Capital Stock and Retained Earnings			
Common Stock and Paid In Capital		6,841,994	
Retained Earnings		<u>6,565,013</u>	
Total			13,407,007
Current and Accrued Liabilities			
Accounts Payable - Trade		181,215	
Taxes Accrued		565,445	
Customer Deposits		205,402	
Customer Deposits - Interest		251,453	
A/P - Associated Companies		<u>4,754,256</u>	
Total			5,957,771
Advances In Aid of Construction			
Water		800	
Sewer		<u>800</u>	
Total			1,600
Contributions In Aid of Construction			
Water		4,535,743	
Sewer		<u>10,675,688</u>	
Total			15,211,431
Accumulated Deferred Income Tax			
Unamortized ITC		280,860	
Deferred Tax - Federal		1,846,126	
Deferred Tax - State		<u>(92,428)</u>	
Total			2,034,558
	<u>Total Liabilities and Other Credits</u>		<u>36,612,367</u>

**THE OFFICE OF REGULATORY STAFF
DIRECT TESTIMONY AND EXHIBITS
OF
DAWN M. HIPPI**



DOCKET NO. 2006-92-WS

**Application of Carolina Water Service, Inc.
for Adjustment of Rates and Charges for the
Provision of Water and Sewer Service**

1 **TESTIMONY OF DAWN M. HIPPI**

2 **FOR**

3 **THE OFFICE OF REGULATORY STAFF**

4 **DOCKET NO. 2006-92-WS**

5 **IN RE: CAROLINA WATER SERVICE, INC.**

6
7
8
9 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND**
10 **OCCUPATION.**

11 **A.** My name is Dawn M. Hipp. My business address is 1441 Main Street, Suite 300,
12 Columbia, South Carolina 29201. I am employed by the state of South Carolina as
13 a Program Specialist in the Water/Wastewater Department for the Office of
14 Regulatory Staff ("ORS").

15 **Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND**
16 **EXPERIENCE.**

17 **A.** I am a 1992 graduate of Moorhead State University where I earned a B.S. in
18 Political Science. I have over eight years of experience in hazardous waste
19 regulation. From 1996 to 1999, I worked for Laidlaw Environment Services in
20 Saukville, Wisconsin, as an accounts receivable supervisor and then as a facility
21 accounting supervisor for Laidlaw's Government Services Division. In this role, I
22 facilitated electronic commerce including EDI transfer of orders and EFT
23 payments with customers. I also developed, implemented, and enhanced

THE OFFICE OF REGULATORY STAFF
 1441 Main Street, Suite 300, Columbia, SC 29201
 Post Office Box 11263, Columbia, SC 29211

1 government billing and waste tracking systems. From 1999-2003, I worked for
2 Safety-Kleen Corporation and Clean Harbors Environmental Services, Inc. in
3 Columbia, SC as an operations manager in the Government Services Division. In
4 this role, I managed the financial, operations and all regulatory aspects of field
5 offices nationwide serving Department of Defense hazardous waste removal
6 contracts. I was accountable for the viability of 14 government contracts yielding
7 \$12 million in revenue annually.

8 In September 2004, I joined ORS as the Program Specialist for the Water and
9 Wastewater Department. I am a member of the American Water Works
10 Association ("AWWA") and the South Carolina Section of the American Water
11 Works Association ("SC-AWWA"). In addition, I have completed the Eastern
12 National Association Regulatory Utility Commissioners ("NARUC") Utility Rate
13 School: Basics of Ratesetting and New Mexico State University's Center for
14 Public Utilities Workshop: Regulating Small Water Utilities.

15 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS
16 PROCEEDING?

17 A. The purpose of my testimony is to set forth the ORS staff findings relative to my
18 review of the rate increase application submitted by Carolina Water Service, Inc.
19 ("CWS"). Specifically, I will focus on CWS's compliance with the Public
20 Service Commission ("Commission") rules and regulations, ORS's audit of
21 various CWS water and wastewater facilities, test-year revenue and proposed
22 revenue adjustments, and CWS customer complaints.

1 Q. ARE THE FINDINGS OF YOUR REVIEW CONTAINED IN THIS
2 TESTIMONY AND ACCOMPANYING EXHIBITS?

3 A. Yes, my testimony and the attached exhibits detail ORS's findings and
4 recommendations.

5 Q. PLEASE EXPLAIN HOW YOU COMPILED INFORMATION FOR YOUR
6 TESTIMONY AND EXHIBITS.

7 A. I used ORS revenue audit results, facility site inspection findings and information
8 provided by CWS in its Application and Data Request responses. I also reviewed
9 CWS's financial statements and performance bond documents submitted to the
10 Commission.

11 Q. PLEASE PROVIDE AN OVERVIEW OF THE LOCATIONS, SERVICE
12 TYPES AND CUSTOMER BASE SERVICED BY CWS.

13 A. CWS is a public utility providing water distribution/supply services and
14 wastewater collection/treatment services. As a subsidiary of Utilities, Inc., CWS
15 is one of four NARUC Class A water and wastewater utilities in South Carolina.
16 The Commission approved service area for CWS includes portions of Aiken,
17 Beaufort, Dorchester, Georgetown, Lexington, Orangeburg, Richland, Sumter,
18 Williamsburg and York counties. According to CWS's customer records for the
19 test year ending September 30, 2005, water services, including distribution, were
20 provided to 7,431 residential and commercial single family equivalents.
21 Likewise, wastewater collection and treatment services were provided to 11,973
22 residential and commercial single family equivalents. Exhibit DMH-1 provides a
23 customer overview of current CWS customers by location and service type.

1 Exhibit DMH-2 provides a detail of test-year customers by classification,
2 subdivision, location and service type.

3 Q. HAS CWS PETITIONED THE COMMISSION TO TRANSFER THE
4 KING'S GRANT, PLANTATION RIDGE AND TEAL ON THE ASHLEY
5 WATER AND WASTEWATER SYSTEMS?

6 A. Yes. Under Docket No. 2006-171-WS, CWS filed an application to transfer the
7 water/wastewater systems and service territory serving King's Grant, Plantation
8 Ridge and Teal on the Ashley subdivisions to Dorchester County. If this transfer
9 is approved by the Commission, CWS will no longer serve any customers in
10 Dorchester County.

11 Q. DOES ORS INCLUDE INFORMATION IN ITS DIRECT TESTIMONY
12 FOR KING'S GRANT, PLANTATION RIDGE AND TEAL ON THE
13 ASHLEY CUSTOMERS?

14 A. Yes. While ORS continues to review the CWS petition to transfer the Dorchester
15 water and wastewater systems and service territory, we have normalized test year
16 revenues to reflect the elimination of the King's Grant, Plantation Ridge and Teal
17 on the Ashley subdivisions.

18 Q. PLEASE EXPLAIN EXHIBIT DMH-3 OF YOUR REPORT.

19 A. Exhibit DMH-3, consisting of three pages, provides a summary of the services
20 provided by CWS based on the Business Office Compliance Review completed
21 by ORS. The Business Office Compliance Review consists of a review of CWS's
22 office records to determine compliance with PSC rules and regulations.

1 As expected of a Class A water utility, CWS utilizes a customized computer
2 database to capture all customer account transactions. The system tracks all
3 customer complaints received by the Northbrook, IL, office and the West
4 Columbia, SC, office. Each complaint is reflected in the specific customer
5 account as a service order and complaint resolution data is clearly provided by
6 date and responsible party. CWS's customer bill, disconnect notices, payment
7 plans and deposit receipts contain all required information and are issued to
8 customers in a timely manner. Invoice adjustments, deposit refunds, late payment
9 penalties and reconnection notices are automated, accurate and timely. Overall,
10 CWS's business systems are well-suited to ensure compliance with the
11 administrative aspects of 26 S.C. Code Regs. 103 Articles 5 and 7. CWS is in
12 compliance with the Annual Report and Gross Receipts requirements as well.

13 Q. PLEASE EXPLAIN EXHIBIT DMH-4 OF YOUR REPORT.

14 A. Exhibit DMH-4, consisting of 21 pages, is a summary of the water
15 distribution/supply and wastewater collection and treatment services inspected by
16 ORS in May and June 2006.

17 Water Distribution and Supply

18 CWS currently provides adequate water distribution and supply services to its
19 residential and commercial customers. Water is provided to customers by CWS
20 operated wells or by an outside bulk water provider. In some cases, CWS
21 purchases water to serve customers from municipalities such as the City of West
22 Columbia, Town of Lexington, Lexington Joint Municipal Water and Sewer
23 Commission, and York County. CWS has completed infrastructure

1 improvements to repair and replace pump houses, storage tanks and operating
2 wells. Safe drinking water standards were being met according to recent DHEC
3 sanitary survey reports and required certified operator logs were in compliance at
4 all ORS audited facilities. General housekeeping items including treatment
5 chemical labeling, facility fencing, access roads and signage are satisfactory.
6 Potable water and irrigation consumption is metered to all customers. CWS does
7 not provide fire protection services to its customers and is not required to provide
8 this service.

9 **Wastewater Collection and Treatment Systems**

10 CWS provides wastewater treatment under NPDES permits. During the ORS
11 inspection, all wastewater collection and treatment systems were operating
12 adequately and in accordance with DHEC rules and regulations. CWS has
13 recently completed a major wastewater treatment plant upgrade in Sumter
14 County. An aged aerated lagoon which struggled to meet the NPDES discharge
15 limits has been replaced by an activated sludge plant.

16 **Q. DO YOU HAVE ANY COMMENTS REGARDING CWS'S ABILITY TO**
17 **RESOLVE CUSTOMER BILLING COMPLAINT ISSUES ARISING**
18 **FROM WATER LEAKS?**

19 **A.** Yes. During the test year, ORS received several customer complaints related to
20 high bills when a water leak occurred on the customer service line. In
21 subdivisions where CWS purchases water supply and sewer treatment services
22 from a third party, a water leak on the customer line will increase both the water
23 and the sewer components of the customer's bill since sewer service is comprised

1 of a base facilities charge ("BFC") and a per 1,000 gallon charge based on water
2 consumption. If the water leak occurs and is absorbed into the ground, a customer
3 will still pay sewer charges based on that water usage even when it can be
4 documented that the water leak did not flow into the sewer collection system.
5 While ORS recognizes that CWS's contracts with third parties do not allow for
6 courtesy adjustments to sewer usage charges in this type of situation because the
7 third party charges are calculated based on water usage and that CWS is not
8 obligated to make such adjustments under 26 S.C. Code Regs. 103-533 and 103-
9 733, ORS encourages CWS to explore opportunities to negotiate future contracts
10 to include a suitable remedy for the customer.

11 **Q. IS CWS RESPONSIBLE FOR LEAKS OR BLOCKAGES ON THE**
12 **CUSTOMER'S SERVICE LINE?**

13 **A.** No. ORS often receives customer inquiries regarding service line maintenance
14 responsibility. CWS is not obligated to correct leaks or blockages on service lines
15 past the point of delivery identified by 26 S.C. Code Regs. 103-540 and 103-740.
16 Maintenance responsibility is defined in 26 S.C. Code Regs. 103-555.A which
17 states "the utility shall install and maintain that portion of the service pipe from
18 the main to the boundary line of the property being served..." Likewise, 26 S.C.
19 Code Regs. 103-702.7, identifies the utility water service line as "the portion of
20 the distribution line that transports water from the main to the meter, or if there is
21 no meter, up to and including the curb stop."

22 **Q. DOES ORS RECOMMEND ANY ADJUSTMENTS TO THE TEST YEAR**
23 **SERVICE REVENUES OF CWS?**

1 A. ORS completed a thorough review of CWS's customer water consumption and
2 BFC revenue calculations for the test year. Based on this review, ORS does not
3 oppose CWS's minor adjustments to test year water and sewer service revenue.
4 In addition, ORS proposes several minor adjustments to test year service revenue
5 as calculated based on CWS's customer billing records. It should be noted that
6 these calculated adjustments were under \$100 and could be deemed de minimus.
7 CWS bills all customers in accordance with the rate structure approved by the
8 Commission. Customer's water or wastewater treatment provided by a
9 government entity is invoiced in accordance with the pass-through language in
10 CWS's tariff. In addition, ORS proposes no adjustment to CWS's Miscellaneous
11 Revenues or Uncollectible Accounts. CWS currently has an uncollectible
12 percentage of less than 1% which ORS finds to be acceptable.

13 Q. PLEASE EXPLAIN EXHIBIT DMH-5 OF YOUR REPORT.

14 A. Exhibit DMH-5 provides an overview of the rates proposed pursuant to the
15 settlement agreement and their impact on water and wastewater revenues. ORS
16 used consumption data provided by CWS and verified during the audit. In
17 addition, ORS used CWS's current rates for these calculations. It is important to
18 note that during the test year period CWS converted from one rate schedule to
19 another which was approved by the Commission under Docket 2005-357-WS.
20 Therefore, revenues for the test year were normalized for ratemaking purposes to
21 reflect a full year of customer consumption and BFC at recently approved rates. In
22 addition, ORS normalized test year revenues to reflect the pending transfer of
23 water and wastewater systems and service territory in Dorchester County per

1 Docket No. 2006-171-WS. In summary, ORS calculated CWS's test year service
2 revenue for water operations, as adjusted, of \$1,927,522. ORS calculated CWS's
3 test year service revenue for wastewater operations, as adjusted, of \$4,401,139.
4 ORS calculated test year revenues for combined operations, as adjusted, of
5 \$6,328,661 (Exhibit DMH-5 page 1). For the purposes of settlement agreement,
6 ORS calculated CWS's proposed water service revenues, as adjusted, of
7 \$2,073,651 and proposed wastewater service revenues, as adjusted, of \$4,733,225.
8 Under the proposed settlement, combined operations revenue, as adjusted, would
9 total \$6,806,876 (Exhibit DMH-5 page 1). ORS did not factor customer growth
10 into these revenue comparisons; however, Ms. Sharon Scott has provided
11 testimony regarding the ORS customer growth calculation.

12 **Q. PLEASE EXPLAIN EXHIBIT DMH-6 OF YOUR REPORT.**

13 A. Exhibit DMH-6 is a summary of the current PSC approved rates for CWS and
14 rates proposed as part of the settlement agreement.

15 **Q. ON WHAT BASIS DOES ORS MAKE DEPRECIABLE SERVICE LIFE**
16 **RECOMMENDATIONS?**

17 A. ORS recommendations are based on the conclusions outlined in the Florida Public
18 Service Commission Water and Wastewater System Regulatory Law as
19 recommended by the NARUC staff. ORS's approach and conclusions made
20 concerning depreciation are consistent with the Public Utility Depreciation
21 Practices manual as published by NARUC in 1996.

22 **Q. DOES THAT CONCLUDE YOUR TESTIMONY?**

23 A. Yes it does.

THE OFFICE OF REGULATORY STAFF

DOCKET NO. 2006-92-WS

**Application of Carolina Water Service, Inc. for Adjustment of Rates and Charges
for the Provision of Water and Sewer Service**

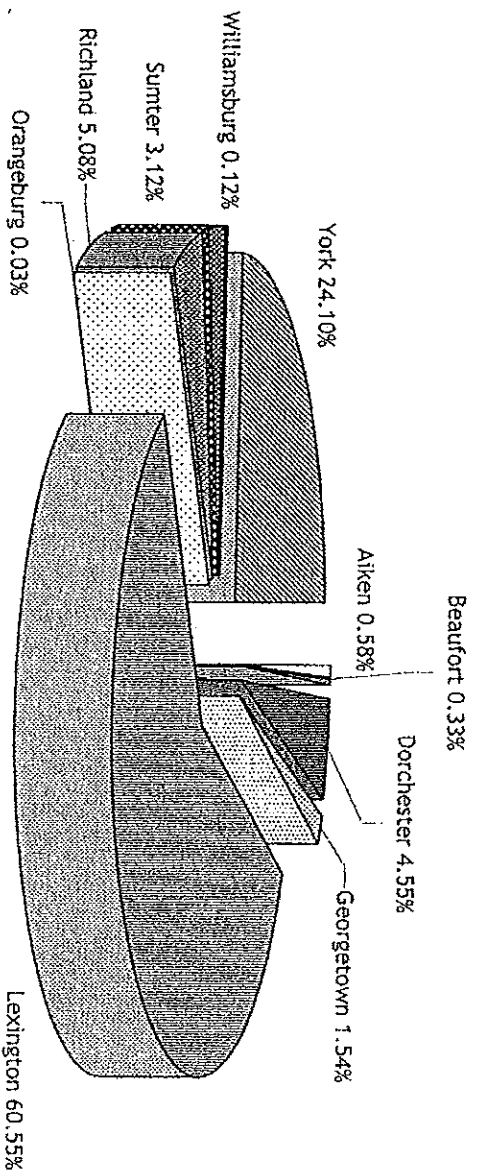
DAWN M. HIPPIE TESTIMONY

EXHIBIT INDEX

<u>EXHIBIT NO.</u>	<u>EXHIBIT TYPE</u>	<u>PREPARED BY</u>
DMH-1	CWS Customer Overview by County and Service	ORS
DMH-2	CWS Customer Detail	ORS
DMH-3	ORS Business Office Compliance Review	ORS
DMH-4	ORS Facility Inspection Report	ORS
DMH-5	Service Revenue Impact	ORS
DMH-6	CWS Proposed Rate Overview	ORS

Exhibit DMH-1

Carolina Water Service, Inc.
2006-92-WS
Number of Customers by County
Test Year Ending 09/30/05



Carolina Water Service, Inc.
2006-92-WS
Customer Classification
for Test Year ending September 30, 2005

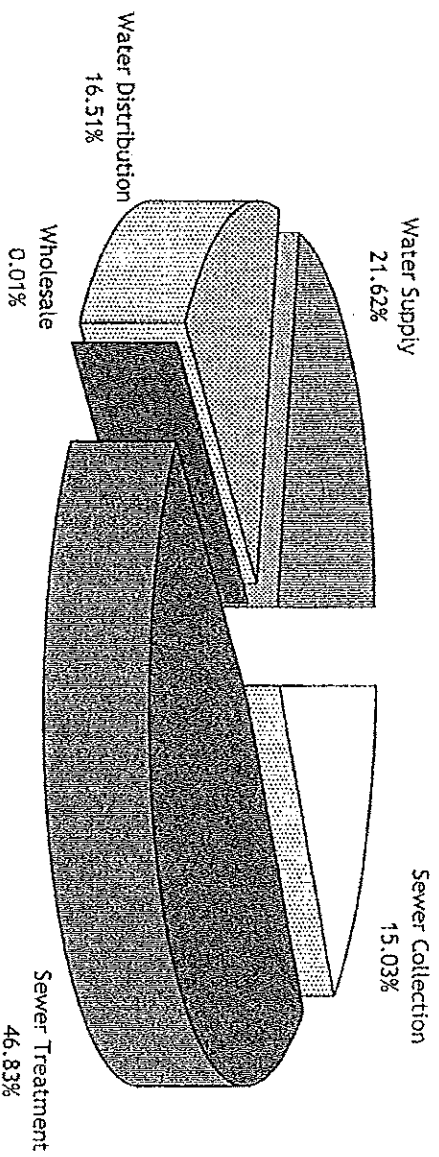


Exhibit DMH-2

Carolina Water Service, Inc.
2006-92-WS
Customer Detail by Service Area and Service Type

Exhibit DMH-2
1

Subdivision	Customer Count 10/01/04	Customer Count 09/30/05	Service Description	Bulk Water/Sewer Provider
Aiken County				
Hunter's Glen	92	94	Residential Water	CWS
	1	1	Commercial Water	CWS
Total	93	95		
Beaufort County				
Palmetto Apt	54	54	Residential Sewer Collection	BJWSA
Total	54	54		
Dorchester County				
King's Grant/Plantation Ridge	676	676	Residential Sewer	CWS
	4	4	Commercial Sewer	CWS
Teal on the Ashley	32	32	Residential Water	CWS
	32	32	Residential Sewer	CWS
Total	744	744		
Georgetown County				
Lincolnshire/White Oak	252	252	Residential Sewer	CWS
Total	252	252		
Lexington County				
Blue Ridge	54	55	Residential Water	CWS
Brighton Forest	138	138	Residential Water Distribution	West Columbia
	145	145	Residential Sewer	CWS
	2	2	Commercial Sewer	CWS
Calvin Acres	2	2	Commercial Water	CWS
	19	19	Residential Sewer	CWS
Falcon Ranches	95	96	Residential Water	CWS
	2	2	Commercial Water	CWS
Friarsgate	2777	2778	Residential Sewer	CWS
	59	59	Commercial Sewer	CWS
Glenn Village/Stonebridge	204	204	Residential Water	CWS
	179	187	Residential Sewer	CWS
Golden Pond	356	356	Residential Water Distribution	West Columbia
	347	347	Residential Sewer	CWS
Governor's Grant	314	320	Residential Sewer	CWS
	1	1	Commercial Sewer	CWS
Harborside	2	2	Commercial Water Distribution	LCJMWS
	1	1	Commercial Sewer	CWS
	24	24	Residential Sewer	CWS
	24	24	Residential Water	LCJMWS
Heatherwood	100	100	Residential Water	CWS
	1	1	Commercial Water	CWS
Hidden Valley Country Club	187	190	Residential Water	CWS
Vanarsdale	1	1	Wholesale Sewer Treatment	CWS
Hidden Valley/Mineral Springs	2	2	Mobile Home Sewer	CWS
	1	1	Residential Water Distribution	West Columbia
Idlewood	50	50	Residential Water Distribution	West Columbia
	3	3	Commercial Water Distribution	West Columbia
Indian Pines	17	17	Residential Water	CWS
Lake Murray/Lands End/Watergate/Spence Point/The Docks/Winward Point/Harbor Place/Mallard Cove/Seay Cove	331	334	Residential Water Distribution	LCJMWS
	4	4	Commercial Water Distribution	LCJMWS
	247	247	Residential Sewer	LCJMWS
	1	1	Commercial Sewer	LCJMWS
Laurel Meadows/Savannah Point	275	275	Residential Water Distribution	West Columbia
	2	2	Commercial Water Distribution	West Columbia
	269	269	Residential Sewer	CWS
	1	1	Commercial Sewer	CWS
Oak Grove Estates	126	126	Residential Water Distribution	West Columbia
	6	6	Commercial Water Distribution	West Columbia
	128	128	Residential Sewer	CWS
	1	1	Mobile Home Sewer	CWS
	6	6	Commercial Sewer	CWS
Oakwood	27	27	Residential Water Distribution	West Columbia
	8	8	Commercial Water Distribution	West Columbia
	2	2	Commercial Sewer	CWS
Peachtree Acres	46	46	Residential Water	CWS
	1	1	Commercial Water	CWS

Carolina Water Service, Inc.
2006-92-WS
Customer Detail by Service Area and Service Type

Exhibit DMH-2
2

Subdivision	Customer Count 10/01/04	Customer Count 09/30/05	Service Description	Bulk Water/Sewer Provider
Lexington County continued				
Planter's Station	163	163	Residential Water Distribution	West Columbia
	1	1	Commercial Water Distribution	West Columbia
	162	162	Residential Sewer	CWS
Rollingwood/Silver Creek	184	184	Residential Water Distribution	LCJMWS
	1	1	Commercial Water Distribution	LCJMWS
	101	101	Residential Sewer	CWS
Salem Church Road	120	141	Residential Sewer	CWS
	8	10	Commercial Sewer	CWS
Secret Cove	87	87	Residential Sewer	CWS
Smallwood Estates	87	98	Residential Water	CWS
	1	1	Commercial Water	CWS
	86	97	Residential Sewer	CWS
Spring Hill/Oakcrest/Meadowood/Maple Grove/Timberlake	406	408	Residential Water Distribution	West Columbia
	5	5	Commercial Water Distribution	West Columbia
	408	419	Residential Sewer	CWS
	3	3	Commercial Sewer	CWS
Spring Lake/Dutchwood	120	120	Residential Water Distribution	West Columbia
	120	120	Residential Sewer	CWS
Sycamore Acres	75	75	Residential Water Distribution	West Columbia
	3	3	Commercial Water Distribution	West Columbia
The Landings	158	159	Residential Water Distribution	LCJMWS
	160	161	Residential Sewer	CWS
Universal/Greyland Forest/Woodcastle	311	311	Residential Water Distribution	West Columbia
	2	2	Commercial Water Distribution	West Columbia
	307	307	Residential Sewer	CWS
	1	1	Commercial Sewer	CWS
Westside Terrace	61	61	Residential Water Distribution	Lexington
	3	3	Commercial Water Distribution	Lexington
Woodsen	88	88	Residential Sewer	CWS
Total	9820	9903		
Orangeburg County				
Roosevelt Gardens	2	2	Residential Sewer	CWS
	3	3	Commercial Sewer	CWS
Total	5	5		
Richland County				
Ballentine Cove	90	90	Residential Sewer	CWS
Forty Love	87	96	Residential Water	CWS
	86	95	Residential Sewer Collection	Richland County
Indian Fork	73	74	Residential Water	CWS
	82	83	Residential Sewer Collection	Chapin
North Pines/Stonegate	127	127	Residential Water	CWS
	128	128	Residential Sewer Collection	CWS
North Shore Point	24	24	Residential Sewer Collection	Richland County
Shadowood Cove	109	111	Residential Sewer Collection	Richland County
	2	2	Commercial Sewer Collection	Richland County
Total	808	830		
Sumter County				
Oakland Plantation	245	245	Residential Sewer	CWS
	4	4	Commercial Sewer	CWS
Pocalla	99	99	Residential Water	CWS
	162	162	Residential Sewer	CWS
Total	510	510		
Williamsburg County				
Rock Bluff	20	20	Residential Water	CWS
Total	20	20		
York County				
River Hills/Commodore/Forest Oak/Lake Wylie/Landings/Palmetto	1734	1923	Residential Water Distribution	York County
Dev/Crescent Land	119	122	Commercial Water Distribution	York County
	1652	1801	Residential Sewer Collection	York County
	94	95	Residential Sewer Collection	York County
Total	3599	3941		

Exhibit DMH-3

**REVIEW OF WATER AND WASTEWATER SERVICES
CAROLINA WATER SERVICE, INC.
DOCKET: 2006-92-WS**

The Office of Regulatory Staff ("ORS") of South Carolina performed a Business Compliance audit of the revenue, customer complaint, and customer deposit records of Carolina Water Service, Inc. ("CWS") in preparation for this rate case. CWS currently provides water, water distribution, wastewater collection and treatment services to commercial and residential customers in portions of Aiken, Beaufort, Dorchester, Georgetown, Lexington, Orangeburg, Richland, Sumter, Williamsburg and York counties. As of April 1, 2006, CWS provides water services to 7,362 single family equivalents and wastewater services to 11,830 single family equivalents.

The ORS Consumer Services Department received 52 consumer complaints regarding CWS during the test year. Consumers contacted ORS to resolve the following issues: billing disputes, service disconnections, complaints regarding rates implemented under PSC Order 2005-328, and service complaints. Since the Notice of Filing was mailed to CWS's customers, the Public Service Commission has received no Petitions to Intervene and 10 Letters of Protest.

ORS determined CWS provides adequate water provision/distribution service and wastewater collection/treatment service. CWS is currently operating all water and wastewater systems in compliance with all DHEC rules, regulations and consent orders.

The following 2 pages provide a summary of the ORS Business Compliance Audit results.

Carolina Water Service, Inc.
Computation of Income Taxes
For the Test Year Ended September 30, 2005

	As Adjusted - Per Books		
	Combined Operations	Water Operations	Sewer Operations
	\$	\$	\$
Operating Revenues As Adjusted	6,734,985	1,939,626	4,795,359
Operating Expenses As Adjusted	5,603,855	1,682,648	3,921,207
Net Operating Income Before Taxes	1,131,130	256,978	874,152
Less: Annualized Interest Expense	581,937	152,688	429,249
Taxable Income - State	549,193	104,290	444,903
State Income Taxes @ 5%	27,460	5,215	22,245
Taxable Income - Federal	521,733	99,075	422,658
Federal Income Taxes @ 35%	182,606	34,676	147,930
Total State and Federal Income Taxes	210,066	39,891	170,175
Less: Income Taxes Per Book	19,164	5,979	13,185
Adjustment	190,902	33,912	156,990

	After Accounting and Pro Forma Adjustments		
	Combined Operations	Water Operations	Sewer Operations
	\$	\$	\$
Operating Revenue As Adjusted	6,717,812	1,956,876	4,760,936
Operating Expenses As Adjusted	5,319,569	1,550,366	3,769,203
Net Operating Income Before Taxes	1,398,243	406,510	991,733
Less: Annualized Interest Expense	693,913	168,832	525,081
Taxable Income - State	704,330	237,678	466,652
State Income Taxes @ 5%	35,217	11,884	23,333
Taxable Income - Federal	669,113	225,794	443,319
Federal Income Taxes @ 35%	234,190	79,028	155,162
Total State and Federal Income Taxes	269,407	90,912	178,495
Less: Income Taxes Adjusted Per Book	210,066	39,891	170,175
Adjustment	59,341	51,021	8,320



ORS BUSINESS OFFICE COMPLIANCE REVIEW

Utility: Carolina Water Service, Inc.
 Inspector: Dawn Hipp
 Office: Corporate: 2335 Saunders Road, Northbrook, IL 60062; Local Office: 110 Queen Parkway, West Columbia
 Utility Type: Water and Wastewater Utility
 Date: 05/16-06/06/06
 Company Representative: Kirsten Weeks/Mac Mitchell

#	Compliance Regulation	In Compliance	Out of Compliance	Comments
1	All records and reports available for examination in accordance with R.103-510 and R. 103-710.	X		Customers can contact West Columbia office to receive copies of records.
2	Complaint records maintained in accordance with R.103-516 and R. 103-716.	X		All customer complaints are input into CWS database which tracks service orders, complaint types and related resolutions. Customer complaint detail received per PSC Order 2005-328.
3	Utility's rates, its rules and regulations, and its up-to-date maps and plans available for public inspection in accordance with R.103-530 and R.103-730.	X		All documents including plans and maps are available in the West Columbia office.
4	Established procedures to assure that every customer making a complaint is made aware that the utility is under the jurisdiction of the Public Service Commission of SC and that the customer has the right to register the complaint in accordance with R.103-530 and R. 103-730.	X		CWS new customer package provides adequate reference to PSC jurisdiction. Customer bills also refer to PSC regulation.
5	Deposits charged within the limits established by R.103-531 and R. 103-731.	X		Deposits are charged and receipted in compliance. CWS automated billing system credits deposits w/ interest at appropriate intervals. Accrued deposits remain in separate account from other revenues. Interest is reflected at proper rate authorized by PSC.
6	Timely and accurate bills being rendered to customers in accordance with R.103-532 and R.103-732.	X		Invoices issued in 2 staggered billing cycles approximately 10 days after meters are read. CWS bills in arrears for services.
7	Bill forms in accordance with R.103-532 and R.103-732.	X		Bill form is clear with adequate after-hours emergency contact information.
8	Adjustments of bills handled in accordance with R.103-533 and 103-733.	X		Invoice adjustments are compliant with R.103-533 and 103-733.

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#	Compliance Regulation	In Compliance	Out of Compliance	Comments
9	Policy for customer denial or discontinuance of service in accordance with R.103-535 and 103-735.	X		Deferred payment plan and payment extension agreement available to all customers.
10	Notices sent to customers prior to termination in accordance with R.103-535 and 103-735.	X		Proper notice procedure is followed. Disconnect notices are received by ORS monthly.
11	Notices filed with the Commission of any violation of PSC or DHEC rules which affect service provided to its customers in accordance with rule R.103-514-C and 103-714-C.	X		
12	Utility has adequate means (telephone, etc.) whereby each customer can contact the water and/or wastewater utility at all hours in case of emergency or unscheduled interruptions or service in accordance with R.103-530 and 103-730.	X		
13	Records maintained of any condition resulting in any interruption of service affecting its entire system or major division, including a statement of time, duration, and cause of such an interruption in accordance with R.103-514 and 103-714.	X		
14	Utility advised the Commission, in accordance with Rule 103-512 of the name, title, address and telephone number of the person who should be contacted in connection with general management duties, customer relations, engineering operations, emergencies during non-office hours.	X		Authorized Utility Representative Form received.
15	Company verified the maps on file with the Commission include all the service area of the company.	X		
16	Number of customers the company has at present time.	NA	NA	As of 04/01/06, CWS provides service to 7,362 water SFEs and 11,830 sewer SFEs.
17	Company has a current performance bond on file with the Commission. Amount of bond: \$700,000.00	X		CWS currently has a \$700,000 irrevocable letter of credit (ILC) on file with the PSC/ORS dated 07/29/05.
18	Company has a current annual report on file with the Office of Regulatory Staff.	X		Filed 04/26/06
19	Company has paid annual Gross Receipts assessment.	X		Current filing and payment made.

Exhibit DMH-4



ORS WATER SYSTEM INSPECTION REPORT

Inspection Overview: Blue Ridge Terrace/Heatherwood

Date Inspected: 05/17/06
 Inspector Name: Dawn Hipp
 Docket Number: 2006-92-WS
 Utility Name: Carolina Water Service, Inc.
 Utility Representative: M. Mitchell/Tony Ellinger
 Number of Customers: 204
 System Type (distribution, well, etc): Well system with storage
 Location of System: Hwy. 302, Lexington County
 Location of Utility Office: West Columbia
 Treatment Type: Chlorination
 Permit #: 3250015
 Last SC DHEC Compliance Rating: Needs Improvement - Capacity
 Frequency checked by Licensed Operator: Daily - Operator Name:
 Wastewater Provider: Septic Tank

Inspection Overview

	System Components Inspected	Specific Type	#	P S I	Capacity	Compliance		Comments
						Yes	No	
1	Well Sites	Bored	4			X		2 wells off-line; PER pending for new well
2	Pump Houses	Varied				X		Housekeeping good
3	Storage Tank	Pressurized	2		11,000 20,000	X		
3a	Storage Tank	Non-Pressurized	0			NA	NA	
3b	Storage Tank	Overhead	0			NA	NA	
4	Chlorinator					X		
5	Other Chemicals in use					X		Soda ash
6	Meters	Yes				X		
7	Fire Hydrants	No				X		Flushing only
8	Electrical Wiring acceptable					X		
9	Piping acceptable					X		
10	Water free of air					X		
11	Water free of sand					X		
12	Water clarity					X		
13	System free of leaks					X		
14	Water free of observed odor					X		
15	Access road adequate					X		
16	Ability for service area to expand					X		

Inspection Testing Results

	Water Quality Test Type	Result		Comments
		Well #1	Well #2	
TR1	Turbidity	0 JTU	1 JTU	Sample site after treatment
TR2	Color	7	0	No visible color

Additional Comments:



ORS WATER SYSTEM INSPECTION REPORT

Inspection Overview: Falcon Ranches

Date Inspected: 05/17/06
 Inspector Name: Dawn Hipp
 Docket Number: 2006-92-WS
 Utility Name: Carolina Water Service, Inc.
 Utility Representative: M. Mitchell/Tony Eltinger
 Number of Customers: 107
 System Type (distribution, well, etc): Well system with storage
 Location of System: Hwy 302, Lexington County
 Location of Utility Office: West Columbia
 Treatment Type: Chlorination
 Permit #: 3250016
 Last SC DHEC Compliance Rating: Satisfactory
 Frequency checked by Licensed Operator: Daily - Operator Name: Charlie Gunter
 Wastewater Provider: Septic tank

Inspection Overview

	System Components Inspected	Specific Type	#	PSI	Capacity	Compliance		Comments
						Yes	No	
1	Well Sites	Bored	2	45		X		
2	Pump Houses	Varied	2			X		
3	Storage Tank	Pressurized	1		6500	X		2 bladder tanks @ Well #2. Tank in the process of being replaced.
3a	Storage Tank	Non-Pressurized	0			NA	NA	
3b	Storage Tank	Overhead	0			NA	NA	
4	Chlorinator					X		
5	Other Chemicals in use					X		Soda ash
6	Meters	Yes				X		
7	Fire Hydrants	No				X		Flushing only
8	Electrical Wiring acceptable					X		
9	Piping acceptable					X		
10	Water free of air					X		
11	Water free of sand					X		
12	Water clarity					X		
13	System free of leaks					X		
14	Water free of observed odor					X		
15	Access road adequate					X		
16	Ability for service area to expand					X		

Inspection Testing Results

	Water Quality Test Type	Result		Comments
		Well #1	Well #2	
TR1	Turbidity	8 JTU	0 JTU	Sampling point after treatment for both wells
TR2	Color	32	8	Water appeared clear with no air bubbles

Additional Comments:



ORS WASTEWATER SYSTEM INSPECTION REPORT

Inspection Overview: Friarsgate

Date Inspected:	05/17/06
Inspector Name:	Dawn Hipp
Docket Number:	2006-92-WS
Utility Name:	Carolina Water Service, Inc.
Utility Representative:	M. Mitchell
Number of Customers:	
System Type (collection, force main, lagoon, etc):	Collection, forced main, lagoon
Location of System:	Hwy 6, Lexington County
Location of Utility Office:	West Columbia, SC
Treatment Type:	Biological Treatment using oxidation ditch and return activated sludge process
Permit #:	SC0036137
Last SC DHEC Compliance Rating:	Satisfactory (10/05/05)
Frequency checked by WWTF Operator:	Daily - Operator Name: Ralph Cook
Drinking Water Provider:	Varied

Inspection Results

	System Components Inspected	Yes	No	Comments
1	Chlorinator	X		Chlorine gas
2	Other chemicals in use	X		Sodium thiosulfate
3	Aerators present	X		Various types of aerators, diffusers
4	Plant fenced and locked	X		
5	Warning Signs Visible	X		
6	Fence in good condition	X		
7	Dikes in good condition	X		Cement dikes on oxidation ditch
8	Odor non-existent or limited	X		Odor abatement operating
9	Grass mowed	X		
10	Duckweed/Algae acceptable	X		None and limited foam
11	Grease build-up acceptable	X		Normal appearance
12	Plant free of debris	X		Static bar screen process. Plant housekeeping good.
13	Effluent Color acceptable	X		Clear
14	Lift Stations present	X		Many lift stations located throughout system
15	Failure Warning System adequate	X		
16	Electric Wiring adequate	X		
17	System free of leaks	X		
18	System free of overflows	X		
19	Access road adequate	X		
20	Ability for service area to expand	X		

Additional Comments:

Odor abatement systems installed in 2005 - no odor present at time of inspection.
Permitted to process 1M gpd



ORS WATER SYSTEM INSPECTION REPORT

Inspection Overview: Glenn Village II

Date Inspected: 05/17/06
 Inspector Name: Dawn Hipp
 Docket Number: 2006-92-WS
 Utility Name: Carolina Water Service, Inc.
 Utility Representative: M. Mitchell; T. Ellinger
 Number of Customers: 221
 System Type (distribution, well, etc): Well system with storage
 Location of System: Lexington County (Fish Hatchery Rd & Glenn Rd)
 Location of Utility Office: West Columbia
 Treatment Type: Chlorination
 Permit #: 3250058
 Last SC DHEC Compliance Rating: Satisfactory (08/269/05)
 Frequency checked by Licensed Operator: Daily: Michael Zeise
 Wastewater Provider: CWS

Inspection Overview

	System Components Inspected	Specific Type	#	PSI	Capacity	Compliance		Comments
						Yes	No	
1	Well Sites	Sand	2	50	-	X		#1 has RAD above MCL. CWS reviewing eng. plans for filter
2	Pump Houses	Masonite	2			X		Housekeeping good
3	Storage Tank	Pressurized	1		15K	X		
3a	Storage Tank	Non-Pressurized	0			NA	NA	
3b	Storage Tank	Overhead	0			NA	NA	
4	Chlorinator					X		
5	Other Chemicals in use					X		Sodium carbonate and phosphates
6	Meters	Yes				X		All connections metered
7	Fire Hydrants	Flushing only				X		Hydrants for flushing only
8	Electrical Wiring acceptable					X		
9	Piping acceptable					X		
10	Water free of air					X		
11	Water free of sand					X		
12	Water clarity					X		
13	System free of leaks					X		
14	Water free of observed odor					X		
15	Access road adequate					X		
16	Ability for service area to expand					X		Some development possible

Inspection Testing Results

	Water Quality Test Type	Result		Comments
		Well #1	213 Oak Top Court	
TR1	Turbidity	3 JTU	2 JTU	Water tested at residence
TR2	Color	29	13	Color at Well #1 slightly yellow

Additional Comments:

RAD Notice mailed to customers on 05/09/06. CWS investigating engineering options for treatment of RAD. Consumer, Charles Lucas, 213 Oak Top Court 739-2773, contact ORS to meet and have water tested.



ORS WASTEWATER SYSTEM INSPECTION REPORT

Inspection Overview: Glenn Village

Date Inspected:	05/17/06
Inspector Name:	Dawn Hipp
Docket Number:	2006-92-WS
Utility Name:	Carolina Water Service, Inc.
Utility Representative:	Mac Mitchell/Tony Ellinger
Number of Customers:	221
System Type (collection, force main, lagoon, etc):	Collection, Forced Main, Activated Sludge Plant
Location of System:	Lexington County
Location of Utility Office:	West Columbia, SC
Treatment Type:	Activated Sludge process
Permit #:	SC0030651
Last SC DHEC Compliance Rating:	Satisfactory
Frequency checked by WWTF Operator:	Daily - Operator Name: Mike Zeise
Drinking Water Provider:	Carolina Water Service, Inc.

Inspection Results

	System Components Inspected	Yes	No	Comments
1	Chlorinator	X		Injection
2	Other chemicals in use	X		Sodium thiosulfate
3	Aerators present	X		Various sizes and diffusers
4	Plant fenced and locked	X		
5	Warning Signs Visible	X		
6	Fence in good condition	X		
7	Dikes in good condition	NA	NA	
8	Odor non-existent or limited	X		
9	Grass mowed	X		
10	Duckweed/Algae acceptable	NA	NA	
11	Grease build-up acceptable	X		Normal appearance
12	Plant free of debris	X		Static screen process. Plant housekeeping good.
13	Effluent Color acceptable	X		Clear
14	Lift Stations present	X		2 Lift Stations
15	Failure Warning System adequate	X		
16	Electric Wiring adequate	X		
17	System free of leaks	X		
18	System free of overflows	X		
19	Access road adequate	X		
20	Ability for service area to expand	X		Limited expansion potential

Additional Comments:

Recently installed new inflow pumps
 Discharges to tributary
 System built in 1970's



ORS WATER SYSTEM INSPECTION REPORT

Inspection Overview: Hunter's Glen

Date Inspected: 05/18/06
 Inspector Name: Dawn Hipp
 Docket Number: 2006-92-WS
 Utility Name: Carolina Water Service, Inc.
 Utility Representative: Tony Ellinger
 Number of Customers: 93
 System Type (distribution, well, etc): Well system with storage
 Location of System: Ramblewood Road, Aiken County
 Location of Utility Office: West Columbia
 Treatment Type: Chlorination
 Permit #: 0250005
 Last SC DHEC Compliance Rating: Needs Improvement (04/13/05) - Cross Connection Control and Certified Operator
 Frequency checked by Licensed Operator: Daily: Charlie Gunter
 Wastewater Provider: Septic

Inspection Overview

	System Components Inspected	Specific Type	#	PSI	Capacity	Compliance		Comments
						Yes	No	
1	Well Sites	Bored	3	50	30 gpm/130 gpm	X		Well #1 is off-line. Booster pumps use for transmission in looped system.
2	Pump Houses	Varied	2			X		Housekeeping good
3	Storage Tank	Pressurized	2		10K	X		1 tank offline
3a	Storage Tank	Non-Pressurized	0			NA	NA	
3b	Storage Tank	Overhead	0			NA	NA	
4	Chlorinator					X		
5	Other Chemicals in use					X		Soda ash and phosphates
6	Meters	Yes				X		All connections metered
7	Fire Hydrants	Flushing only				X		Hydrants for flushing only
8	Electrical Wiring acceptable					X		
9	Piping acceptable					X		
10	Water free of air					X		None observed
11	Water free of sand					X		None observed
12	Water clarity					X		None observed
13	System free of leaks					X		None observed
14	Water free of observed odor					X		None observed
15	Access road adequate					X		
16	Ability for service area to expand					X		Some development possible

Inspection Testing Results

	Water Quality Test Type	Result		Comments
TR1	Turbidity	NA	NA	Site not selected for testing
TR2	Color	NA	NA	Site not selected for testing

Additional Comments:

Customer base includes residential and church/school.



ORS WASTEWATER SYSTEM INSPECTION REPORT

Inspection Overview: I-20 Plant-Laurel Meadows EQ and DeVega Rd. Sites

Date Inspected:	05/17/06
Inspector Name:	Dawn Hipp
Docket Number:	2006-92-WS
Utility Name:	Carolina Water Service, Inc.
Utility Representative:	M. Mitchell
Number of Customers:	
System Type (collection, force main, lagoon, etc):	Collection, forced main, lagoon
Location of System:	Hwy 378, Lexington County
Location of Utility Office:	West Columbia, SC
Treatment Type:	Biological Treatment using aerated lagoon
Permit #:	SC0035564
Last SC DHEC Compliance Rating:	Unsatisfactory (02/01/06)
Frequency checked by WWTF Operator:	Daily - Operator Name: Charlie Gunter
Drinking Water Provider:	CWS

Inspection Results

	System Components Inspected	Yes	No	Comments
1	Chlorinator	X		Chlorine gas
2	Other chemicals in use	X		Sodium thiosulfate
3	Aerators present	X		17 operate on timer (4 aerators not operating)
4	Plant fenced and locked	X		
5	Warning Signs Visible	X		
6	Fence in good condition	X		
7	Dikes in good condition	X		
8	Odor non-existent or limited	X		
9	Grass mowed	X		
10	Duckweed/Algae acceptable	X		Back pond is closed to WW - storm water only
11	Grease build-up acceptable	X		Normal appearance
12	Plant free of debris	X		Manual bar screen process. Plant housekeeping good.
13	Effluent Color acceptable	X		Clear
14	Lift Stations present	X		30+lift stations located throughout system
15	Failure Warning System adequate	X		
16	Electric Wiring adequate	X		
17	System free of leaks	X		
18	System free of overflows	X		
19	Access road adequate	X		
20	Ability for service area to expand		X	DHEC moratorium on taps due to continued discussions under the 201/208 plan

Additional Comments:

**Note: Evaluation complete for Laurel Meadows EQ facility and DeVega Road contact chamber only.
 Outfall on Saluda River.
 Permitted for 800 gpd



ORS WATER SYSTEM INSPECTION REPORT

Inspection Overview: Indian Fork/Forty Love

Date Inspected: 05/17/06
 Inspector Name: Dawn Hipp
 Docket Number: 2006-92-WS
 Utility Name: Carolina Water Service, Inc.
 Utility Representative: M. Mitchell/Harry Elkins
 Number of Customers: 170
 System Type (distribution, well, etc): Well system with storage
 Location of System: Lexington County
 Location of Utility Office: West Columbia
 Treatment Type: Chlorination/pH adjustment/softener
 Permit #: 3250066
 Last SC DHEC Compliance Rating: Satisfactory
 Frequency checked by Licensed Operator: Daily - Operator Name: Harry Elkins
 Wastewater Provider: Town of Chapin/Richland County

Inspection Overview

	System Components Inspected	Specific Type	#	PSI	Capacity	Compliance		Comments
						Yes	No	
1	Well Sites	Bored	4	50	Well #1 42 gpm	X		8 wells/3 operating Inspection on Wells #1, 2, 3
2	Pump Houses	Varied	4			X		House keeping good
3	Storage Tank	Pressurized	4			X		1-10K online and 15K tank off line
3a	Storage Tank	Non-Pressurized						
3b	Storage Tank	Overhead						
4	Chlorinator					X		All wells looped to 1 treatment area on Hiller Road
5	Other Chemicals in use					X		Soda ash, potassium
6	Meters	Yes				X		
7	Fire Hydrants	No				X		Flushing hydrants
8	Electrical Wiring acceptable					X		
9	Piping acceptable					X		
10	Water free of air					X		Slight air at sample point
11	Water free of sand					X		
12	Water clarity					X		
13	System free of leaks					X		
14	Water free of observed odor					X		
15	Access road adequate					X		
16	Ability for service area to expand					X		New house construction present.

Inspection Testing Results

	Water Quality Test Type	Result	Comments
TR1	Turbidity	1 JTU	Sample point after treatment at Hiller Road. All wells looped and treatment applied at 1 location.
TR2	Color	27 units	Air bubbles present in sample.

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Additional Comments:

- 1) Wells are looped to maintain sufficient capacity and pressure on system. Treatment for all water done at Hiller Rd. site.
- 2) Housekeeping was good.
- 3) 2 wastewater lift stations owned/operated by CWS



ORS WATER SYSTEM INSPECTION REPORT

Inspection Overview: Indian Pines

Date Inspected: 05/19/06
 Inspector Name: Dawn Hipp
 Docket Number: 2006-92-WS
 Utility Name: Carolina Water Service, Inc.
 Utility Representative: Tony Ellinger
 Number of Customers: 17
 System Type (distribution, well, etc): Well system with storage
 Location of System: St. David's Church Rd, Lexington County
 Location of Utility Office: West Columbia
 Treatment Type: Chlorination
 Permit #: 3250051
 Last SC DHEC Compliance Rating: Satisfactory (01/09/06)
 Frequency checked by Licensed Operator: Daily: Von Bowen
 Wastewater Provider: Septic

Inspection Overview

	System Components Inspected	Specific Type	#	PSI	Capacity	Compliance		Comments
						Yes	No	
1	Well Sites	Sand	2	45	16 gpm/6 gpm	X		Wells blended before treatment to keep RAD within limits
2	Pump Houses	Varied	2			X		Housekeeping good
3	Storage Tank	Pressurized	1		6000	X		Tank condition good. Painted in 2005. Tank is pressure checked each year.
3a	Storage Tank	Non-Pressurized	0			NA	NA	
3b	Storage Tank	Overhead	0			NA	NA	
4	Chlorinator					X		
5	Other Chemicals in use					X		Soda ash and phosphates
6	Meters	Yes				X		All connections metered
7	Fire Hydrants	Flushing only				X		Hydrants for flushing only
8	Electrical Wiring acceptable					X		
9	Piping acceptable					X		
10	Water free of air					X		None observed
11	Water free of sand					X		None observed
12	Water clarity					X		None observed
13	System free of leaks					X		None observed
14	Water free of observed odor					X		None observed
15	Access road adequate					X		
16	Ability for service area to expand					X		Some development possible

Inspection Testing Results

	Water Quality Test Type	Result		Comments
TR1	Turbidity	NA	NA	Site not selected for testing
TR2	Color	NA	NA	Site not selected for testing

Additional Comments:



ORS WASTEWATER SYSTEM INSPECTION REPORT

Inspection Overview: Oakland Plantation

Date Inspected:	05/17/06
Inspector Name:	Dawn Hipp
Docket Number:	2006-92-WS
Utility Name:	Carolina Water Service, Inc.
Utility Representative:	M. Mitchell, R. Plummer
Number of Customers:	397
System Type (collection, force main, lagoon, etc):	Collection/Aerated lagoon
Location of System:	Sumter County (behind Shaw AFB)
Location of Utility Office:	West Columbia, SC
Treatment Type:	Gravity flow to aerated lagoon/Chlorination and dechlorination
Permit #:	SC0030678
Last SC DHEC Compliance Rating:	Satisfactory (03/14/05)
Frequency checked by WWTF Operator:	Daily - Operator Name: Randall Plummer
Drinking Water Provider:	Utilities Services of SC, Inc.

Inspection Results

	System Components Inspected	Yes	No	Comments
1	Chlorinator	X		Liquid injection
2	Other chemicals in use	X		Dechlorination using sodium thiosulfate
3	Aerators present	X		2 Mixers and 3 Aerators operating using timers
4	Plant fenced and locked	X		
5	Warning Signs Visible	X		
6	Fence in good condition	X		
7	Dikes in good condition	X		Cement collar/lining
8	Odor non-existent or limited	X		
9	Grass mowed	X		
10	Duckweed/Algae acceptable	X		Foam and solids in EQ basin
11	Grease build-up acceptable	X		Foam build-up
12	Plant free of debris	X		
13	Effluent Color acceptable	X		Clear
14	Lift Stations present	X		1 lift station in Oakland Plantation
15	Failure Warning System adequate	X		
16	Electric Wiring adequate	X		
17	System free of leaks	X		
18	System free of overflows	X		
19	Access road adequate	X		
20	Ability for service area to expand	X		23 taps available

Additional Comments:

Plant components include EQ basin, horizontal clarifier and digester.
 Sludge wasting each week per Randall.
 Repairs include replacement of lines with PVC piping, man hole covers.
 Customer base includes apartment buildings.
 System built in 1960's.



ORS WATER SYSTEM INSPECTION REPORT

Inspection Overview: Peachtree Acres

Date Inspected: 05/17/06
 Inspector Name: Dawn Hipp
 Docket Number: 2006-92-WS
 Utility Name: Carolina Water Service, Inc.
 Utility Representative: M. Mitchell/Tony Ellinger
 Number of Customers: 49
 System Type (distribution, well, etc): Well system with storage
 Location of System: Hwy #7, Lexington County
 Location of Utility Office: West Columbia
 Treatment Type: Chlorination
 Permit #: 3250045
 Last SC DHEC Compliance Rating: Satisfactory
 Frequency checked by Licensed Operator: Daily - Operator Name: Von Bowen
 Wastewater Provider: Septic Tanks

Inspection Overview

	System Components Inspected	Specific Type	#	PSI	Capacity	Compliance		Comments
						Yes	No	
1	Well Sites	Bored	2	25	65 gpm	X		
2	Pump Houses	Varied	2			X		Housekeeping good
3	Storage Tank	Pressurized	1	64	6,000	X		Tank to be replaced in next year
3a	Storage Tank	Non-Pressurized	0			NA	NA	
3b	Storage Tank	Overhead	0			NA	NA	
4	Chlorinator					X		
5	Other Chemicals in use					X		Soda ash
6	Meters	Yes				X		
7	Fire Hydrants	No				X		Flushing only
8	Electrical Wiring acceptable					X		
9	Piping acceptable					X		
10	Water free of air					X		
11	Water free of sand					X		
12	Water clarity					X		
13	System free of leaks					X		
14	Water free of observed odor					X		
15	Access road adequate					X		
16	Ability for service area to expand					X		

Inspection Testing Results

	Water Quality Test Type	Result		Comments
		Well #2	Well #1	
TR1	Turbidity	0 JTU	1 JTU	
TR2	Color	0	3	

Additional Comments:



ORS WATER SYSTEM INSPECTION REPORT

Inspection Overview: Pocalla

Date Inspected: 05/17/06
 Inspector Name: Dawn Hipp
 Docket Number: 2006-92-WS
 Utility Name: Carolina Water Service, Inc.
 Utility Representative: M. Mitchell/R. Plummer
 Number of Customers: 103
 System Type (distribution, well, etc): Well system with storage
 Location of System: Sumter County
 Location of Utility Office: West Columbia
 Treatment Type: Chlorination, corrosion inhibitor, pH adjustment
 Permit #: 4350007
 Last SC DHEC Compliance Rating: Satisfactory (01/19/05)
 Frequency checked by Licensed Operator: Daily - Operator Name: Randall Plummer
 Wastewater Provider: CWS

Inspection Overview

	System Components Inspected	Specific Type	#	PSI	Capacity	Compliance		Comments
						Yes	No	
1	Well Sites	Bored	2	50	150 gpm	X		Wells mix prior to treatment
2	Pump Houses	Brick	2			X		Good condition
3	Storage Tank	Pressurized	1		7500	X		
3a	Storage Tank	Non-Pressurized	0			NA	NA	
3b	Storage Tank	Overhead	0			NA	NA	
4	Chlorinator					X		
5	Other Chemicals in use					X		Phosphates, soda ash
6	Meters	Yes				X		All customers metered
7	Fire Hydrants	Flushing				X		Flushing only
8	Electrical Wiring acceptable					X		
9	Piping acceptable					X		
10	Water free of air					X		
11	Water free of sand					X		
12	Water clarity					X		
13	System free of leaks					X		
14	Water free of observed odor					X		
15	Access road adequate					X		
16	Ability for service area to expand					X		Few taps remain

Inspection Testing Results

	Water Quality Test Type	Result	Comments
TR1	Turbidity	2 JTU	Sample drawn post treatment
TR2	Color	16	Sample drawn post treatment. No observed color.

Additional Comments:



ORS WASTEWATER SYSTEM INSPECTION REPORT

Inspection Overview: Pócalla

Date Inspected:	05/17/06
Inspector Name:	Dawn Hipp
Docket Number:	2006-92-WS
Utility Name:	Carolina Water Service, Inc.
Utility Representative:	M. Mitchell/R. Plummer
Number of Customers:	103
System Type (collection, force main, lagoon, etc):	Collection/gravity flow/plant
Location of System:	Sumter County (Hwy 15)
Location of Utility Office:	West Columbia, SC
Treatment Type:	Activated sludge
Permit #:	SC0030724
Last SC DHEC Compliance Rating:	Satisfactory (03/14/05)
Frequency checked by WWTF Operator:	Daily - Operator Name: Randall Plummer
Drinking Water Provider:	CWS

Inspection Results

	System Components Inspected	Yes	No	Comments
1	Chlorinator	X		Liquid
2	Other chemicals in use	X		Dechlorination: sodium thiosulfate
3	Aerators present	X		Aerators and diffusers throughout plant
4	Plant fenced and locked	X		
5	Warning Signs Visible	X		
6	Fence in good condition	X		
7	Dikes in good condition	X		Concrete apron around the equalization basin
8	Odor non-existent or limited	X		
9	Grass mowed	X		
10	Duckweed/Algae acceptable	NA	NA	None observed
11	Grease build-up acceptable	X		
12	Plant free of debris	X		
13	Effluent Color acceptable	X		Slight greenish color due to new plant being brought on-line
14	Lift Stations present		X	All gravity flow
15	Failure Warning System adequate	X		
16	Electric Wiring adequate	X		
17	System free of leaks	X		
18	System free of overflows	X		
19	Access road adequate	X		
20	Ability for service area to expand	X		

Additional Comments:

Upgrade of entire plant completed in April 2006.
 Closure of lagoon in process.
 Clarifier is traveling bridge system
 Sand filter to reduce TSS



ORS WATER SYSTEM INSPECTION REPORT

Inspection Overview: River Hills

Date Inspected: 06/01/06
 Inspector Name: Dawn Hipp
 Docket Number: 2006-92-WS
 Utility Name: Carolina Water Service, Inc.
 Utility Representative: M. Mitchell
 Number of Customers: Approx. 3197
 System Type (distribution, well, etc): Distribution, purchased water from York County (which is purchased from Rock Hill)
 Location of System: Hwy. 49, York County
 Location of Utility Office: West Columbia
 Treatment Type: NA
 Permit #: 4650006
 Last SC DHEC Compliance Rating: Satisfactory (09/29/05)
 Frequency checked by Licensed Operator: Daily: Dick Hinson
 Wastewater Provider: CWS

Inspection Overview

	System Components Inspected	Specific Type	#	PSI	Capacity	Compliance		Comments
						Yes	No	
1	Well Sites		0			NA	NA	Purchased from York County
2	Pump Houses					NA	NA	
3	Storage Tank	Pressurized				NA	NA	
3a	Storage Tank	Non-Pressurized				NA	NA	
3b	Storage Tank	Overhead				NA	NA	Elevated tank owned by CWS but leased to York County
4	Chlorinator					NA	NA	
5	Other Chemicals in use					NA	NA	
6	Meters	Yes				X		All connections metered
7	Fire Hydrants	Flushing only				X		Hydrants for flushing only
8	Electrical Wiring acceptable					X		
9	Piping acceptable					X		
10	Water free of air					X		None observed
11	Water free of sand					X		None observed
12	Water clarity					X		None observed
13	System free of leaks					X		None observed
14	Water free of observed odor					X		None observed
15	Access road adequate					X		
16	Ability for service area to expand					X		Some development possible

Inspection Testing Results

	Water Quality Test Type	Result		Comments
TR1	Turbidity	NA	NA	Site not selected for testing
TR2	Color	NA	NA	Site not selected for testing

Additional Comments:

System is distribution only. Purchased water from York County.



ORS WASTEWATER SYSTEM INSPECTION REPORT

Inspection Overview: River Hills

Date Inspected:	06/01/06
Inspector Name:	Dawn Hipp
Docket Number:	2006-92-WS
Utility Name:	Carolina Water Service, Inc.
Utility Representative:	M. Mitchell
Number of Customers:	
System Type (collection, force main, lagoon, etc):	Lift stations
Location of System:	York County
Location of Utility Office:	West Columbia, SC
Treatment Type:	Purchased Treatment from York County
Permit #:	NA
Last SC DHEC Compliance Rating:	NA
Frequency checked by WWTF Operator:	NA
Drinking Water Provider:	CWS (purchased water)

Inspection Results

	System Components Inspected	Yes	No	Comments
1	Chlorinator	NA	NA	
2	Other chemicals in use	NA	NA	
3	Aerators present	NA	NA	
4	Plant fenced and locked	X		Lift Station site evaluated
5	Warning Signs Visible	X		Lift Station site evaluated
6	Fence in good condition	X		Lift Station site evaluated
7	Dikes in good condition	NA	NA	
8	Odor non-existent or limited	X		None observed at lift station
9	Grass mowed	X		
10	Duckweed/Algae acceptable	NA	NA	
11	Grease build-up acceptable	NA	NA	
12	Plant free of debris	X		
13	Effluent Color acceptable	NA	NA	
14	Lift Stations present	X		36 Lift stations in River Hills
15	Failure Warning System adequate	X		Mission system
16	Electric Wiring adequate	X		
17	System free of leaks	X		
18	System free of overflows	X		
19	Access road adequate	X		
20	Ability for service area to expand	X		

Additional Comments:

Sewer treatment purchased from York County.
 CWS leases EQ basin to York County.
 Collection system improvements include manhole repair/re-lining.
 Customers billed sewer service based on water consumption.



ORS WATER SYSTEM INSPECTION REPORT

Inspection Overview: Rock Bluff

Date Inspected: 05/19/06
 Inspector Name: Dawn Hipp
 Docket Number: 2006-92-WS
 Utility Name: Carolina Water Service, Inc.
 Utility Representative: Larry Carnish
 Number of Customers: 21
 System Type (distribution, well, etc): Well system with storage
 Location of System: Williamsburg County
 Location of Utility Office: West Columbia
 Treatment Type: Chlorination
 Permit #: 4550001
 Last SC DHEC Compliance Rating: Satisfactory (8/03/05)
 Frequency checked by Licensed Operator: Daily: G. Randall Plummer
 Wastewater Provider: Septic

Inspection Overview

	System Components Inspected	Specific Type	#	PSI	Capacity	Compliance		Comments
						Yes	No	
1	Well Sites	Bored	1	45	40gpm	X		
2	Pump Houses	Brick	1			X		Housekeeping good
3	Storage Tank	Pressurized	1	55	3000	X		Tank condition good.
3a	Storage Tank	Non-Pressurized	0			NA	NA	
3b	Storage Tank	Overhead	0			NA	NA	
4	Chlorinator					X		
5	Other Chemicals in use					NA	NA	
6	Meters	Yes				X		All connections metered
7	Fire Hydrants	Flushing only				X		Hydrants for flushing only
8	Electrical Wiring acceptable					X		
9	Piping acceptable					X		
10	Water free of air					X		None observed
11	Water free of sand					X		None observed
12	Water clarity					X		Clear
13	System free of leaks					X		None observed
14	Water free of observed odor					X		None observed
15	Access road adequate					X		
16	Ability for service area to expand					X		Some development possible. 30 taps left

Inspection Testing Results

	Water Quality Test Type	Result		Comments
TR1	Turbidity	NA	NA	Site not selected for testing
TR2	Color	NA	NA	Site not selected for testing

Additional Comments:

System has telemetry monitoring system.



ORS WASTEWATER SYSTEM INSPECTION REPORT

Inspection Overview: Roosevelt Gardens

Date Inspected: 05/18/06
 Inspector Name: Dawn Hipp
 Docket Number: 2006-92-WS
 Utility Name: Carolina Water Service, Inc.
 Utility Representative: Tony Ellinger
 Number of Customers:
 System Type (collection, force main, lagoon, etc): Collection, Package Plant
 Location of System: Hwy 601, Orangeburg County
 Location of Utility Office: West Columbia, SC
 Treatment Type: Biological Treatment
 Permit #: SC0029645
 Last SC DHEC Compliance Rating: Satisfactory
 Frequency checked by WWTF Operator: Daily - Operator Name: J. Russell Wright
 Drinking Water Provider: Orangeburg DPU

Inspection Results

	System Components Inspected	Yes	No	Comments
1	Chlorinator	X		Liquid Injection
2	Other chemicals in use	X		Sodium thiosulfate
3	Aerators present	X		Various sizes, diffusers, mixers
4	Plant fenced and locked	X		
5	Warning Signs Visible	X		
6	Fence in good condition	X		
7	Dikes in good condition	NA	NA	
8	Odor non-existent or limited	X		
9	Grass mowed	X		
10	Duckweed/Algae acceptable	NA	NA	
11	Grease build-up acceptable	X		Normal appearance
12	Plant free of debris	X		Manual bar screen process. Plant housekeeping good.
13	Effluent Color acceptable	X		Clear
14	Lift Stations present	NA	NA	No lift stations on system
15	Failure Warning System adequate	X		
16	Electric Wiring adequate	X		
17	System free of leaks	X		
18	System free of overflows	X		
19	Access road adequate	X		
20	Ability for service area to expand	X		Limited expansion potential. Service area includes apartments and medical center.

Additional Comments:

System was built in 1970's

Piping is ductile iron

Apartment Complex, owned by HUD, owns and maintains the collection system extending past the CWS fenced area serving the customers.

Grease build-up in system continues to be a problem. CWS routinely TV and jets mains.



ORS WATER SYSTEM INSPECTION REPORT

Inspection Overview: Stonegate

Date Inspected: 05/17/06
 Inspector Name: Dawn Hipp
 Docket Number: 2006-92-WS
 Utility Name: Carolina Water Service, Inc.
 Utility Representative: M. Mitchell/H. Elkins
 Number of Customers: 131
 System Type (distribution, well, etc): Well system with storage
 Location of System: Richland County
 Location of Utility Office: West Columbia
 Treatment Type: Chlorination
 Permit #: 4050014
 Last SC DHEC Compliance Rating: Satisfactory
 Frequency checked by Licensed Operator: Daily - Operator Name: Harry Elkins
 Wastewater Provider: Richland County

Inspection Overview

	System Components Inspected	Specific Type	#	PSI	Capacity	Compliance		Comments
						Yes	No	
1	Well Sites	Bored	3	45	63 gpm	X		3 wells, 1 inactive
2	Pump Houses	Varied	3			X		Housekeeping good
3	Storage Tank	Pressurized	1			X		1 10K tank. Tank to be painted.
3a	Storage Tank	Non-Pressurized	0			NA	NA	
3b	Storage Tank	Overhead	0			NA	NA	
4	Chlorinator					X		
5	Other Chemicals in use					X		Potassium, softeners
6	Meters	Yes				X		
7	Fire Hydrants	No				X		Flushing only
8	Electrical Wiring acceptable					X		
9	Piping acceptable					X		
10	Water free of air					X		
11	Water free of sand					X		
12	Water clarity					X		
13	System free of leaks					X		
14	Water free of observed odor					X		
15	Access road adequate					X		
16	Ability for service area to expand					X		

Inspection Testing Results

	Water Quality Test Type	Result		Comments
		Well #3	Well #2	
TR1	Turbidity	1 JTU	1 JTU	
TR2	Color	3	0	

Additional Comments:



ORS WASTEWATER SYSTEM INSPECTION REPORT

Inspection Overview: Watergate/Landings

Date Inspected:	05/23/06
Inspector Name:	Dawn Hipp
Docket Number:	2006-92-WS
Utility Name:	Carolina Water Service, Inc.
Utility Representative:	Tony Ellinger
Number of Customers:	
System Type (collection, force main, lagoon, etc):	Collection, forced main, activated sludge process
Location of System:	Hwy 6, Lexington County
Location of Utility Office:	West Columbia, SC
Treatment Type:	Activated Sludge/Chlorination and dechlorination
Permit #:	SC0027162
Last SC DHEC Compliance Rating:	Unsatisfactory (03/29/05)
Frequency checked by WWTF Operator:	Daily - Operator Name: Mike Taylor
Drinking Water Provider:	CWS (purchased water)

Inspection Results

	System Components Inspected	Yes	No	Comments
1	Chlorinator	X		Chlorine gas
2	Other chemicals in use	X		Sodium thiosulfate, pH and metal scavenger
3	Aerators present	X		Mixer and extended air
4	Plant fenced and locked	X		
5	Warning Signs Visible	X		
6	Fence in good condition	X		
7	Dikes in good condition	NA	NA	
8	Odor non-existent or limited	X		None observed
9	Grass mowed	X		
10	Duckweed/Algae acceptable	NA	NA	
11	Grease build-up acceptable	X		None
12	Plant free of debris	X		Static screen
13	Effluent Color acceptable	X		No color even though plant upset with red worm problem
14	Lift Stations present	X		15 lift stations. The Landings collection system has Letts tanks
15	Failure Warning System adequate	X		System has mission system.
16	Electric Wiring adequate	X		
17	System free of leaks	X		
18	System free of overflows	X		Overflow in 2004 resulting in Consent Order 05-095-W. Fine paid.
19	Access road adequate	X		
20	Ability for service area to expand	X		DHEC moratorium on taps within subdivision

Additional Comments:

EQ basin covered with floating tarp to eliminate odor.
 Activated sludge plant with air scrubbers and odor abatement system.
 Line repairs in Rollingwood subdivision due to Inflow/Infiltration issues
 Variable speed pumps



ORS WASTEWATER SYSTEM INSPECTION REPORT

Inspection Overview: White's Creek/Lincolnshire

Date Inspected:	05/19/06
Inspector Name:	Dawn Hipp
Docket Number:	2006-92-WS
Utility Name:	Carolina Water Service, Inc.
Utility Representative:	Larry Carnish
Number of Customers:	265
System Type (collection, force main, lagoon, etc):	Collection, forced main, activated sludge process
Location of System:	Waccamaw Rd, Georgetown County
Location of Utility Office:	West Columbia, SC
Treatment Type:	Activated Sludge/Chlorination and dechlorination
Permit #:	SC0030732
Last SC DHEC Compliance Rating:	Unsatisfactory (02/08/05)
Frequency checked by WWTF Operator:	Daily - Operator Name: Larry Carnish
Drinking Water Provider:	Georgetown Co. Rural Comm. Water Dist.

Inspection Results

	System Components Inspected	Yes	No	Comments
1	Chlorinator	X		Chlorine gas
2	Other chemicals in use		X	
3	Aerators present	X		Mixers and extended air in tank
4	Plant fenced and locked	X		
5	Warning Signs Visible	X		
6	Fence in good condition	X		
7	Dikes in good condition	NA	NA	
8	Odor non-existent or limited	X		Slight odor prior to chlorination
9	Grass mowed	X		
10	Duckweed/Algae acceptable	NA	NA	
11	Grease build-up acceptable	X		Slight grease cause by plant upset after rain event
12	Plant free of debris	X		Manual bar screen
13	Effluent Color acceptable	X		Slightly cloudy caused by rain event and delay in sludge removal.
14	Lift Stations present	X		2 lift stations - 1 w/grinder pump
15	Failure Warning System adequate	X		
16	Electric Wiring adequate	X		
17	System free of leaks	X		
18	System free of overflows	X		
19	Access road adequate	X		
20	Ability for service area to expand	X		50 taps available

Additional Comments:

Discharges to Sand Pit creek

Plant was 1 week overdue on its sludge removal. Average of 8600g of sludge removed/month.

Plant upset evident due to rain and sludge level.

CWS is planning a \$1.2 M upgrade if interconnection to Georgetown County fails

Inflow/Infiltration a large problem in service area due to original construction of system by developer in the 1960's.

CWS progresses on the i/i study and replacement of problem sections of main. Plant is severely impacted by rain and storm water run-off.

Exhibit DMH-5

Carolina Water Service, Inc.
2006-92-WS
Service Revenue Impact Summary
for the Test Year ending September 30, 2005

EXHIBIT DMH - 5

Test Year Service Revenue (all customers)

Revenue Type	Per CWS Books	Adjustments to Normalize rates under 2004-357-WS	Adjusted CWS Books	Accounting and Profoma Adjustments	As Adjusted Present	Application Proposed Increase	After Application Proposed Increase
Service Revenue - Water	\$1,887,158	\$35,235	\$1,922,393	\$17,398	\$1,939,791	\$195,519	\$2,135,310
Service Revenue - Sewer	\$4,096,970	\$656,039	\$4,753,009	(\$34,722)	\$4,720,287	\$769,301	\$5,489,588
Miscellaneous Revenue	\$114,816	\$0	\$114,816	\$0	\$114,816	\$0	\$114,816
Total	\$6,098,944	\$693,274	\$6,792,218	(\$17,324)	\$6,774,894	\$964,820	\$7,739,714

Revenue Summary for King's Grant, Plantation Ridge and Teal on the Ashley

Revenue Type	Per CWS Books	Adjustments to Normalize rates under 2004-357-WS	Adjusted CWS Books	Accounting and Profoma Adjustments	As Adjusted Present	Application Proposed Increase	After Application Proposed Increase
Service Revenue - Water	\$12,067	\$223	\$12,290	(\$21)	\$12,269	\$1,108	\$13,377
Service Revenue - Sewer	\$263,382	\$49,984	\$313,366	\$5,782	\$319,148	\$51,969	\$371,117
Miscellaneous Revenue	\$10,764	\$0	\$10,764	\$0	\$10,764	\$0	\$10,764
Total	\$286,214	\$50,207	\$336,421	\$5,761	\$342,182	\$53,077	\$395,259

2006-92-WS: Total Revenue Adjustments

Revenue Type	Per CWS Books	Adjustments to Normalize rates under 2004-357-WS	Adjusted CWS Books	Accounting and Profoma Adjustments	After Accounting and Profoma Adjustments	Adjustment for Dorchester County Transfer	As Adjusted Present	Settlement Agreement Proposed Increase	After Settlement Proposed Increase
Service Revenue - Water	\$1,887,158	\$35,235	\$1,922,393	\$17,398	\$1,939,791	(\$12,269)	\$1,927,522	\$146,129	\$2,073,651
Service Revenue - Sewer	\$4,096,970	\$656,039	\$4,753,009	(\$34,722)	\$4,720,287	(\$319,148)	\$4,401,139	\$332,086	\$4,733,225
Miscellaneous Revenue	\$114,816	\$0	\$114,816	\$0	\$114,816	(\$10,764)	\$104,052	\$0	\$104,052
Total	\$6,098,944	\$693,274	\$6,792,218	(\$17,324)	\$6,774,894	(\$342,187)	\$6,432,713	\$478,215	\$6,910,928

Carolina Water Service, Inc.
Service Revenue Impact
for the Test Year ending September 30, 2005

EXHIBIT DMH-5

Test Year Service Revenue Summary (10/01/04-09/30/05)

Service Type	Rate Structure	Effective Period	Total Consumption in Gallons	Total Service Units	Test Year Calculated Revenues	Normalizing Adjustment	Total Revenue
Water	2000-207-WS	10/01/04-06/30/05	336,041,922	62,132	\$1,372,490	\$35,235	\$1,407,725
Water	2004-357-WS	07/01/05-09/30/05	139,182,669	21,202	\$532,066	\$0	\$532,066
Total Water Service Revenue			475,224,591	83,334	\$1,904,556	\$35,235	\$1,939,791
Adjustment for Dorchester			(2,489,500)	(391)	(\$12,046)	(\$223)	(\$12,269)
Test Year Totals			472,735,091	82,943	1,892,510	35,012	\$1,927,522
Sewer	2000-207-WS	10/01/04-06/30/05	0	109,366	\$2,868,721	\$658,039	\$3,526,760
Sewer	2004-357-WS	07/01/05-09/30/05	0	37,250	\$1,193,528	\$0	\$1,193,528
Total Sewer Service Revenue			0	146,616	\$4,062,248	\$658,039	\$4,720,287
Adjustment for Dorchester			0	(8,753)	(\$269,164)	(\$49,984)	(\$319,148)
Test Year Totals			0	137,863	3,793,084	608,055	\$4,401,140

Carolina Water Service, Inc.
Service Revenue Impact
for the Test Year ending September 30, 2005

EXHIBIT DMH-5

Test Year Water Revenue Overview for October 1, 2004 - June 30, 2005: Rates in Effect under Docket 2000-207-W5

Bill Pro	Customer Classification	Rate Structure	Effective Period	Consumption in Gallons	Usage Charge per 1,000 gallons	Service Units	Base Facility Charge (BFC)	Test Year Calculated Revenues	Normalizing Adjustment	Service Revenue Adjustment for Dorchester County Transfer	Normalizing Adj for Dorchester City	Total Revenue less Transfer
30001 5/8" Res Water	2000-207-W5	10/01/04-06/30/05	88,788,963	\$3.24	12,388	\$10.00	\$346,730	\$9,599	\$0	\$0	\$0	\$346,730
30002 5/8" Res Water Dist	2000-207-W5	10/01/04-06/30/05	126,519,448	\$1.85	24,083	\$10.00	\$474,851	\$12,347	\$0	\$0	\$0	\$487,198
30003 5/8" Res Under Const	2000-207-W5	10/01/04-06/30/05	44,820	\$3.24	4	\$10.00	\$185	\$5	\$0	\$0	\$0	\$190
30005 5/8" Res Unit	2000-207-W5	10/01/04-06/30/05	0	\$3.24	0	\$10.00	\$0	\$0	\$0	\$0	\$0	\$0
30008 5/8" Res Water Dist	2000-207-W5	10/01/04-06/30/05	3,180,050	\$1.85	633	\$10.00	\$12,213	\$317	\$0	\$0	\$0	\$12,530
30008 5/8" Com Water Dist	2000-207-W5	10/01/04-06/30/05	1,685,878	\$1.85	232	\$10.00	\$6,438	\$142	\$0	\$0	\$0	\$6,580
30009 5/8" Com Water Dist	2000-207-W5	10/01/04-06/30/05	660,820	\$3.24	81	\$10.00	\$2,951	\$73	\$0	\$0	\$0	\$3,024
30010 1" Com Water	2000-207-W5	10/01/04-06/30/05	9,000	\$3.24	9	\$25.00	\$254	\$6	\$0	\$0	\$0	\$260
30011 1" Com Water Dist	2000-207-W5	10/01/04-06/30/05	1,210,110	\$1.85	37	\$25.00	\$3,184	\$83	\$0	\$0	\$0	\$3,267
30012 1 1/2" Com Water	2000-207-W5	10/01/04-06/30/05	0	\$3.24	0	\$10.00	\$0	\$0	\$0	\$0	\$0	\$0
30013 2" Com Water	2000-207-W5	10/01/04-06/30/05	0	\$3.24	0	\$10.00	\$0	\$0	\$0	\$0	\$0	\$0
30014 3" Com Water	2000-207-W5	10/01/04-06/30/05	0	\$3.24	0	\$10.00	\$0	\$0	\$0	\$0	\$0	\$0
30016 2" Com Water	2000-207-W5	10/01/04-06/30/05	4,033,780	\$1.85	62	\$80.00	\$12,423	\$326	\$0	\$0	\$0	\$12,749
30017 3" Com Dist	2000-207-W5	10/01/04-06/30/05	1,159,900	\$3.24	9	\$160.00	\$3,586	\$94	\$0	\$0	\$0	\$3,680
30020 3/4" Res Water	2000-207-W5	10/01/04-06/30/05	774,210	\$3.24	0	\$10.00	\$4,368	\$109	\$0	\$0	\$0	\$4,477
30046 2" Res Water	2000-207-W5	10/01/04-06/30/05	35,530	\$1.85	8	\$10.00	\$126	\$3	\$0	\$0	\$0	\$129
30047 3/4" Res Water Dist	2000-207-W5	10/01/04-06/30/05	4,960	\$1.85	1	\$10.00	\$19	\$0	\$0	\$0	\$0	\$19
30048 1" Res Water Dist	2000-207-W5	10/01/04-06/30/05	1,500	\$1.85	2	\$10.00	\$23	\$1	\$0	\$0	\$0	\$23
30048 2" Res Water Dist	2000-207-W5	10/01/04-06/30/05	2,984,050	\$1.85	576	\$10.00	\$11,280	\$293	\$0	\$0	\$0	\$11,573
30051 1" Res Water Dist	2000-207-W5	10/01/04-06/30/05	542,680	\$3.24	109	\$10.00	\$2,818	\$70	\$0	\$0	\$0	\$2,888
30056 1" Res Water	2000-207-W5	10/01/04-06/30/05	3,123,000	\$1.85	612	\$10.00	\$11,893	\$309	\$0	\$0	\$0	\$12,202
30056 2" Res Water Dist	2000-207-W5	10/01/04-06/30/05	176,000	\$1.85	96	\$10.00	\$1,286	\$33	\$0	\$0	\$0	\$1,319
30058 1 1/2" Res Water Dist	2000-207-W5	10/01/04-06/30/05	1,102,300	\$1.85	306	\$10.00	\$5,099	\$132	\$0	\$0	\$0	\$5,231
46001 5/8" Res Water Dist	2000-207-W5	10/01/04-06/30/05	77,624,727	\$1.85	15,606	\$10.00	\$289,501	\$7,778	\$0	\$0	\$0	\$297,279
46003 5/8" Res Under Const	2000-207-W5	10/01/04-06/30/05	0	\$1.85	0	\$10.00	\$0	\$0	\$0	\$0	\$0	\$0
46005 2" Res Water	2000-207-W5	10/01/04-06/30/05	13,602,520	\$1.85	4,700	\$10.00	\$72,165	\$1,855	\$0	\$0	\$0	\$74,020
46006 5/8" Res Water	2000-207-W5	10/01/04-06/30/05	0	\$0.00	9	\$10.00	\$90	\$2	\$0	\$0	\$0	\$92
46007 3/4" Res Water Dist	2000-207-W5	10/01/04-06/30/05	1,370,940	\$1.85	333	\$10.00	\$5,665	\$152	\$0	\$0	\$0	\$5,817
46008 1" Res Water Dist	2000-207-W5	10/01/04-06/30/05	37,800.00	\$1.85	5	\$10.00	\$120	\$3	\$0	\$0	\$0	\$123
46008 5/8" Com Water Dist	2000-207-W5	10/01/04-06/30/05	4,635,840.00	\$1.85	494	\$10.00	\$13,518	\$355	\$0	\$0	\$0	\$13,873
46010 1" Com Water Dist	2000-207-W5	10/01/04-06/30/05	2,637,825.00	\$1.85	157	\$25.00	\$8,505	\$229	\$0	\$0	\$0	\$8,734
46011 1 1/2" Com Water Dist	2000-207-W5	10/01/04-06/30/05	3,586,000.00	\$1.85	108	\$50.00	\$12,034	\$314	\$0	\$0	\$0	\$12,348
46013 2" Com Water Dist	2000-207-W5	10/01/04-06/30/05	9,187,010.00	\$1.85	180	\$80.00	\$31,559	\$818	\$0	\$0	\$0	\$32,377
46014 3" Com Water Dist	2000-207-W5	10/01/04-06/30/05	3,260,640.00	\$1.85	36	\$100.00	\$11,809	\$307	\$0	\$0	\$0	\$12,116
46015 5" Res Water Dist	2000-207-W5	10/01/04-06/30/05	2,807,360.00	\$1.85	660	\$10.00	\$11,878	\$310	\$0	\$0	\$0	\$12,188
46016 5" Res Water Dist	2000-207-W5	10/01/04-06/30/05	1,202,600.00	\$1.85	400	\$10.00	\$6,225	\$160	\$0	\$0	\$0	\$6,385
46019 3/4" Com Water Dist	2000-207-W5	10/01/04-06/30/05	64,530.00	\$1.85	15	\$10.00	\$270	\$7	\$0	\$0	\$0	\$277
Total Water Service			336,041,922		62,132		\$1,372,490	\$35,235	(\$8,995)	(\$223)		\$1,398,578

Carolina Water Service, Inc.
Service Revenue Impact
for the Test Year ending September 30, 2005

EXHIBIT DMH-5

Test Year Sewer Revenue Overview for October 1, 2004 - June 30, 2005; Rates in Effect under Docket 2000-207-WS

Bill Pro	Customer Classification	Rate Structure	Effective Period	Consumption in Gallons	Usage Charge per 1,000 gallons	Service Units	Base Facility Charge (BFC)	Test Year Calculated Revenues	Normalizing Adjustment	Service Revenue Adjustment for Dorchester County Transfer	Normalizing Adj for Dorchester City	Total Revenue less Dorchester City Transfer
29521	Res Sewer	2000-207-WS	10/01/04-06/30/05	0.00	\$0.00	1.005	\$30.33	\$30.482	\$6.161	\$0	\$0	\$36.642
29522	Com Sewer	2000-207-WS	10/01/04-06/30/05	0.00	\$0.00	278	\$30.33	\$8,432	\$1,704	\$0	\$0	\$10,136
30021	5/8" Res Sewer	2000-207-WS	10/01/04-06/30/05	0.00	\$0.00	35.623	\$30.33	\$1,080.446	\$218.369	\$0	\$0	\$1,298.815
30022	Mobile Home Sewer	2000-207-WS	10/01/04-06/30/05	0.00	\$0.00	0	\$22.75	\$0	\$0	\$0	\$0	\$0
30023	2" Com Sewer	2000-207-WS	10/01/04-06/30/05	0.00	\$0.00	1.668	\$30.33	\$50.980	\$10.225	\$0	\$0	\$60.815
30024	5/8" Res Sewer Col	2000-207-WS	10/01/04-06/30/05	0.00	\$0.00	4.705	\$19.38	\$91.280	\$19.280	\$0	\$0	\$110.520
30028	5/8" Com Sewer Col	2000-207-WS	10/01/04-06/30/05	0.00	\$0.00	37	\$19.38	\$717	\$151	\$0	\$0	\$868
30028	Varadale/Midlands	2000-207-WS	10/01/04-06/30/05	0.00	\$0.00	3,744	\$11.00	\$41,184	\$14,976	\$0	\$0	\$56,160
30041	5/8" Res Sewer	2000-207-WS	10/01/04-06/30/05	0.00	\$0.00	35.365	\$28.86	\$1,020.634	\$288.774	(\$187,744)	(\$49,439)	\$1,052.281
30042	5/8" Mobile Home	2000-207-WS	10/01/04-06/30/05	0.00	\$0.00	279	\$21.64	\$6,038	\$1,272	\$0	\$0	\$7,310
30043	5/8" Com Sewer	2000-207-WS	10/01/04-06/30/05	0.00	\$0.00	727	\$28.86	\$20,981	\$5,525	(\$2,078)	(\$557)	\$23,977
30050	3/4" Res Sewer Col	2000-207-WS	10/01/04-06/30/05	0.00	\$0.00	18	\$19.38	\$340	\$74	\$0	\$0	\$422
30054	1" Res Sewer Col	2000-207-WS	10/01/04-06/30/05	0.00	\$0.00	6	\$19.38	\$116	\$25	\$0	\$0	\$141
30055	3/4" Res Sewer	2000-207-WS	10/01/04-06/30/05	0.00	\$0.00	6	\$28.86	\$173	\$48	\$0	\$0	\$221
30056	1" Res Sewer	2000-207-WS	10/01/04-06/30/05	0.00	\$0.00	578	\$28.86	\$16,823	\$4,378	\$0	\$0	\$21,001
30057	1 1/2" Res Sewer	2000-207-WS	10/01/04-06/30/05	0.00	\$0.00	306	\$28.86	\$8,831	\$2,328	\$0	\$0	\$11,157
30058	2" Res Sewer	2000-207-WS	10/01/04-06/30/05	0.00	\$0.00	280	\$28.86	\$8,369	\$2,204	\$0	\$0	\$10,573
30059	4" Res Sewer	2000-207-WS	10/01/04-06/30/05	0.00	\$0.00	98	\$28.86	\$2,771	\$730	\$0	\$0	\$3,501
30060	2" Mobile Home	2000-207-WS	10/01/04-06/30/05	0.00	\$0.00	241	\$28.86	\$6,955	\$1,832	\$0	\$0	\$8,787
30070	1 1/2" Com Sewer	2000-207-WS	10/01/04-06/30/05	0.00	\$0.00	18	\$19.38	\$357.367	\$71.199	\$0	\$0	\$408.566
48021	5/8" Res Sewer Col	2000-207-WS	10/01/04-06/30/05	0.00	\$0.00	17.408	\$19.38	\$337.523	\$110	\$0	\$0	\$554
48022	County Treatment	2000-207-WS	10/01/04-06/30/05	0.00	\$0.00	27	\$19.38	\$523	\$3,578	\$0	\$0	\$20,336
48023	5/8" Com Sewer Col	2000-207-WS	10/01/04-06/30/05	0.00	\$0.00	875	\$19.38	\$16,958	\$855	\$0	\$0	\$4,905
48028	3/4" Res Sewer Col	2000-207-WS	10/01/04-06/30/05	0.00	\$0.00	209	\$19.38	\$4,050	\$855	\$0	\$0	\$235
48031	1" Res Sewer Col	2000-207-WS	10/01/04-06/30/05	0.00	\$0.00	10	\$19.38	\$194	\$41	\$0	\$0	\$235
48032	2" Res Sewer Col	2000-207-WS	10/01/04-06/30/05	0.00	\$0.00	2,140	\$19.38	\$41,475	\$8,753	\$0	\$0	\$50,228
48033	3" Res Sewer Col	2000-207-WS	10/01/04-06/30/05	0.00	\$0.00	660	\$19.38	\$12,791	\$2,698	\$0	\$0	\$15,489
48034	3/4" Res Sewer Col	2000-207-WS	10/01/04-06/30/05	0.00	\$0.00	20	\$19.38	\$385	\$82	\$0	\$0	\$469
48035	1" Com Sewer Col	2000-207-WS	10/01/04-06/30/05	0.00	\$0.00	225	\$19.38	\$4,354	\$951	\$0	\$0	\$5,315
48036	1 1/2" Com Sewer Col	2000-207-WS	10/01/04-06/30/05	0.00	\$0.00	440	\$19.38	\$8,527	\$1,800	\$0	\$0	\$10,327
48037	2" Com Sewer Col	2000-207-WS	10/01/04-06/30/05	0.00	\$0.00	800	\$19.38	\$15,442	\$3,881	\$0	\$0	\$21,123
48038	3" Com Sewer Col	2000-207-WS	10/01/04-06/30/05	0.00	\$0.00	660	\$19.38	\$12,791	\$2,698	\$0	\$0	\$15,489
48039	5" Com Sewer Col	2000-207-WS	10/01/04-06/30/05	0.00	\$0.00	400	\$19.38	\$7,752	\$1,636	\$0	\$0	\$9,388
	Total Sewer Service			0		109,366		\$2,858,727	\$658,039	(\$189,792)	(\$49,984)	\$3,285,984
	Combined Operations			336,041,922.00		171,498.00		\$4,241,211	\$693,274	(\$198,777)	(\$50,206)	\$4,685,502

Carolina Water Service, Inc.
Service Revenue Impact
for the Test Year ending September 30, 2005

EXHIBIT DMH-5

Test Year Water Revenue Overview for July 1, 2005 - September 30, 2005: Rates in Effect under Docket 2004-357-WIS

Bill Pro	Customer Classification	Rate Structure	Effective Period	Consumption in Gallons	Usage Charge per 1,000 gallons	Service Units	Base Facility Charge (BFC)	Test Year Calculated Revenues	Service Revenue Adjustment for Dorchester County Transfer	Total Revenue less Dorchester Cty Transfer
30001.5/8" Res Water	2004-357-WIS	07/01/05-09/30/05	26,602.183	\$3.32	4,150	\$10.25	\$130.857	\$0.00	\$130.857	\$130.857
30002.5/8" Res Water Dist	2004-357-WIS	07/01/05-09/30/05	67,214.387	\$3.32	7,995	\$10.25	\$179.266	\$0.00	\$179.266	\$179.266
30003.5/8" Res Under Const	2004-357-WIS	07/01/05-09/30/05	0	\$3.32	0	\$10.25	\$0.00	\$0.00	\$0.00	\$0.00
30004.5/8" Res Unit	2004-357-WIS	07/01/05-09/30/05	0	\$3.32	0	\$10.25	\$0.00	\$0.00	\$0.00	\$0.00
30005.5/8" Res Water Dist	2004-357-WIS	07/01/05-09/30/05	0	\$1.80	0	\$10.25	\$0.00	\$0.00	\$0.00	\$0.00
30006.5/8" Res Water Dist	2004-357-WIS	07/01/05-09/30/05	635.149	\$1.80	77	\$10.25	\$1.998	\$0.00	\$1.998	\$1.998
30007.5/8" Res Water Dist	2004-357-WIS	07/01/05-09/30/05	298.610	\$3.32	27	\$10.25	\$1.252	\$0.00	\$1.252	\$1.252
30008.5/8" Res Water	2004-357-WIS	07/01/05-09/30/05	4,170	\$3.32	3	\$25.62	\$9.1	\$0.00	\$9.1	\$9.1
30009.5/8" Res Water	2004-357-WIS	07/01/05-09/30/05	565,000	\$1.90	15	\$25.62	\$1,454	\$0.00	\$1,454	\$1,454
30010.1" Com Water	2004-357-WIS	07/01/05-09/30/05	0	\$3.32	0	\$10.25	\$0.00	\$0.00	\$0.00	\$0.00
30011.1" Com Water Dist	2004-357-WIS	07/01/05-09/30/05	0	\$3.32	0	\$10.25	\$0.00	\$0.00	\$0.00	\$0.00
30012.1 1/2" Com Water	2004-357-WIS	07/01/05-09/30/05	0	\$3.32	0	\$10.25	\$0.00	\$0.00	\$0.00	\$0.00
30013.2" Com Water	2004-357-WIS	07/01/05-09/30/05	0	\$3.32	0	\$10.25	\$0.00	\$0.00	\$0.00	\$0.00
30014.3" Com Water	2004-357-WIS	07/01/05-09/30/05	0	\$3.32	0	\$10.25	\$0.00	\$0.00	\$0.00	\$0.00
30015.4" Com Water	2004-357-WIS	07/01/05-09/30/05	0	\$3.32	0	\$10.25	\$0.00	\$0.00	\$0.00	\$0.00
30016.2" Com Dist	2004-357-WIS	07/01/05-09/30/05	1,095,300	\$1.90	27	\$82.00	\$4,295	\$0.00	\$4,295	\$4,295
30017.3" Com Dist	2004-357-WIS	07/01/05-09/30/05	47,900	\$1.90	3	\$164.00	\$1,394	\$0.00	\$1,394	\$1,394
30020.3/4" Res Water	2004-357-WIS	07/01/05-09/30/05	432,390	\$3.32	93	\$10.25	\$2,389	\$0.00	\$2,389	\$2,389
30048.2" Res Water	2004-357-WIS	07/01/05-09/30/05	0	\$3.32	0	\$10.25	\$0.00	\$0.00	\$0.00	\$0.00
30047.3/4" Res Water Dist	2004-357-WIS	07/01/05-09/30/05	23,470	\$1.90	3	\$10.25	\$75	\$0.00	\$75	\$75
30048.1" Res Water Dist	2004-357-WIS	07/01/05-09/30/05	0	\$1.90	0	\$10.25	\$0.00	\$0.00	\$0.00	\$0.00
30049.2" Res Water Dist	2004-357-WIS	07/01/05-09/30/05	1,632,810	\$1.90	288	\$10.25	\$6,055	\$0.00	\$6,055	\$6,055
30061.1" Res Water Dist	2004-357-WIS	07/01/05-09/30/05	248,960	\$3.32	50	\$10.25	\$1,342	\$0.00	\$1,342	\$1,342
30062.2" Res Water	2004-357-WIS	07/01/05-09/30/05	1,737,800	\$1.90	340	\$10.25	\$6,787	\$0.00	\$6,787	\$6,787
30067.4" Res Water Dist	2004-357-WIS	07/01/05-09/30/05	114,000	\$1.90	48	\$10.25	\$709	\$0.00	\$709	\$709
30068.1 1/2" Res Water Dist	2004-357-WIS	07/01/05-09/30/05	787,200	\$1.90	153	\$10.25	\$3,064	\$0.00	\$3,064	\$3,064
46001.5/8" Res Water Dist	2004-357-WIS	07/01/05-09/30/05	35,638,040	\$1.90	5,456	\$10.25	\$123,636	\$0.00	\$123,636	\$123,636
46003.5/8" Res Under Const	2004-357-WIS	07/01/05-09/30/05	0	\$1.90	0	\$10.25	\$0.00	\$0.00	\$0.00	\$0.00
46005.2" Res Water Dist	2004-357-WIS	07/01/05-09/30/05	3,546,600	\$1.90	1,294	\$10.25	\$19,800	\$0.00	\$19,800	\$19,800
46005.8" Res Water	2004-357-WIS	07/01/05-09/30/05	0	\$0.00	3	\$10.25	\$31	\$0.00	\$31	\$31
46007.3/4" Res Water Dist	2004-357-WIS	07/01/05-09/30/05	1,382,560	\$1.90	205	\$10.25	\$4,728	\$0.00	\$4,728	\$4,728
46008.1" Res Water Dist	2004-357-WIS	07/01/05-09/30/05	27,100.00	\$1.90	3	\$10.25	\$82	\$0.00	\$82	\$82
46009.5/8" Com Water Dist	2004-357-WIS	07/01/05-09/30/05	1,576,170.00	\$1.90	172	\$10.25	\$4,758	\$0.00	\$4,758	\$4,758
46010.1" Com Water Dist	2004-357-WIS	07/01/05-09/30/05	1,447,267.00	\$1.90	64	\$25.62	\$4,133	\$0.00	\$4,133	\$4,133
46012.1 1/2" Com Water Dist	2004-357-WIS	07/01/05-09/30/05	1,269,133.00	\$1.90	38	\$51.25	\$4,256	\$0.00	\$4,256	\$4,256
46013.2" Com Water Dist	2004-357-WIS	07/01/05-09/30/05	4,488,559.00	\$1.90	80	\$82.00	\$13,448	\$0.00	\$13,448	\$13,448
46014.3" Com Water Dist	2004-357-WIS	07/01/05-09/30/05	1,323,720.00	\$1.90	12	\$164.00	\$4,483	\$0.00	\$4,483	\$4,483
46015.3" Res Water Dist	2004-357-WIS	07/01/05-09/30/05	1,613,030.00	\$1.90	366	\$10.25	\$7,504	\$0.00	\$7,504	\$7,504
46016.8" Res Water Dist	2004-357-WIS	07/01/05-09/30/05	747,300.00	\$1.90	240	\$10.25	\$3,980	\$0.00	\$3,980	\$3,980
46019.3/4" Com Water Dist	2004-357-WIS	07/01/05-09/30/05	62,770.00	\$1.90	9	\$10.25	\$212	\$0.00	\$212	\$212
Total Water Service					21,202		\$532,066	\$0.00	\$532,066	\$532,066

Carolina Water Service, Inc.
Service Revenue Impact
for the Test Year ending September 30, 2005

EXHIBIT DMH-5

Test Year Sewer Revenue Overview for July 1, 2005 - September 30, 2005: Rates in Effect under Docket 2004-357-WIS

Bill Pro	Customer Classification	Rate Structure	Effective Period	Consumption in Gallons	Usage Charge per 1,000 gallons	Service Units	Base Facility Charge (BFC)	Test Year Calculated Revenues	Service Revenue Adjustment for Dorchester County Transfer	Total Revenue less Dorchester Cty Transfer
29521	Res Sewer	2004-357-WIS	07/01/05-09/30/05	0.00	\$0.00	341	\$36.46	\$12,433	\$0	\$12,433
29522	Com Sewer	2004-357-WIS	07/01/05-09/30/05	0.00	\$0.00	138	\$36.46	\$5,031	\$0	\$5,031
30021	5/8" Res Sewer	2004-357-WIS	07/01/05-09/30/05	0.00	\$0.00	11,776	\$36.46	\$429,353	\$0	\$429,353
30022	Mobile Home Sewer	2004-357-WIS	07/01/05-09/30/05	0.00	\$0.00	0	\$26.20	\$0	\$0	\$0
30023	2" Com Sewer	2004-357-WIS	07/01/05-09/30/05	0.00	\$0.00	521	\$36.46	\$18,995	\$0	\$18,995
30024	5/8" Res Sewer Col	2004-357-WIS	07/01/05-09/30/05	0.00	\$0.00	1,576	\$23.47	\$36,989	\$0	\$36,989
30025	5/8" Com Sewer Col	2004-357-WIS	07/01/05-09/30/05	0.00	\$0.00	21	\$23.47	\$493	\$0	\$493
30026	ValuStreamMidiadis	2004-357-WIS	07/01/05-09/30/05	0.00	\$0.00	1,248	\$15.00	\$18,720	\$0	\$18,720
30027	5/8" Res Sewer	2004-357-WIS	07/01/05-09/30/05	0.00	\$0.00	11,578	\$36.46	\$422,134	(\$78,469)	\$343,665
30041	5/8" Mobile Home	2004-357-WIS	07/01/05-09/30/05	0.00	\$0.00	90	\$29.20	\$2,358	\$0	\$2,358
30042	5/8" Com Sewer	2004-357-WIS	07/01/05-09/30/05	0.00	\$0.00	247	\$36.46	\$9,006	(\$884)	\$8,122
30050	3/4" Res Sewer Col	2004-357-WIS	07/01/05-09/30/05	0.00	\$0.00	9	\$23.47	\$211	\$0	\$211
30054	1" Res Sewer Col	2004-357-WIS	07/01/05-09/30/05	0.00	\$0.00	2	\$23.47	\$47	\$0	\$47
30055	3/4" Res Sewer	2004-357-WIS	07/01/05-09/30/05	0.00	\$0.00	3	\$36.46	\$109	\$0	\$109
30056	1" Res Sewer	2004-357-WIS	07/01/05-09/30/05	0.00	\$0.00	288	\$36.46	\$10,500	\$0	\$10,500
30057	1 1/2" Res Sewer	2004-357-WIS	07/01/05-09/30/05	0.00	\$0.00	153	\$36.46	\$5,578	\$0	\$5,578
30058	2" Res Sewer	2004-357-WIS	07/01/05-09/30/05	0.00	\$0.00	144	\$36.46	\$5,250	\$0	\$5,250
30059	4" Res Sewer	2004-357-WIS	07/01/05-09/30/05	0.00	\$0.00	48	\$36.46	\$1,750	\$0	\$1,750
30060	2" Mobile Home	2004-357-WIS	07/01/05-09/30/05	0.00	\$0.00	185	\$26.20	\$5,109	\$0	\$5,109
30061	2" Com Sewer	2004-357-WIS	07/01/05-09/30/05	0.00	\$0.00	88	\$36.46	\$3,208	\$0	\$3,208
30070	1 1/2" Com Sewer	2004-357-WIS	07/01/05-09/30/05	0.00	\$0.00	7	\$36.46	\$255	\$0	\$255
48021	5/8" Res Sewer Col	2004-357-WIS	07/01/05-09/30/05	0.00	\$0.00	5,125	\$23.47	\$120,284	\$0	\$120,284
48022	County Treatment	2004-357-WIS	07/01/05-09/30/05	0.00	\$0.00	9	\$23.47	\$211	\$0	\$211
48023	5/8" Com Sewer Col	2004-357-WIS	07/01/05-09/30/05	0.00	\$0.00	243	\$23.47	\$5,703	\$0	\$5,703
48029	3/4" Res Sewer Col	2004-357-WIS	07/01/05-09/30/05	0.00	\$0.00	131	\$23.47	\$3,075	\$0	\$3,075
48031	1" Res Sewer Col	2004-357-WIS	07/01/05-09/30/05	0.00	\$0.00	6	\$23.47	\$141	\$0	\$141
48032	2" Res Sewer Col	2004-357-WIS	07/01/05-09/30/05	0.00	\$0.00	1,284	\$23.47	\$30,135	\$0	\$30,135
48033	3" Res Sewer Col	2004-357-WIS	07/01/05-09/30/05	0.00	\$0.00	386	\$23.47	\$9,284	\$0	\$9,284
48034	3/4" Res Sewer Col	2004-357-WIS	07/01/05-09/30/05	0.00	\$0.00	12	\$23.47	\$282	\$0	\$282
48035	1 1/2" Com Sewer Col	2004-357-WIS	07/01/05-09/30/05	0.00	\$0.00	141	\$23.47	\$3,309	\$0	\$3,309
48036	1 1/2" Com Sewer Col	2004-357-WIS	07/01/05-09/30/05	0.00	\$0.00	284	\$23.47	\$6,196	\$0	\$6,196
48037	2" Com Sewer Col	2004-357-WIS	07/01/05-09/30/05	0.00	\$0.00	540	\$23.47	\$12,674	\$0	\$12,674
48038	3" Com Sewer Col	2004-357-WIS	07/01/05-09/30/05	0.00	\$0.00	386	\$23.47	\$9,059	\$0	\$9,059
48039	6" Com Sewer Col	2004-357-WIS	07/01/05-09/30/05	0.00	\$0.00	240	\$23.47	\$5,633	\$0	\$5,633
	Total Sewer Service			0		37,250	\$23.47	\$1,193,528	(\$79,372)	\$1,114,156
	Total for Combined Operations			139,182,669.00		58,452.00		\$1,726,593	(\$82,433)	\$1,644,160

Carolina Water Service, Inc.
Service Revenue Impact
for the Test Year ending September 30, 2005

EXHIBIT DMH-5

Settlement Agreement Proposed Rates: Water and Sewer Revenue Overview for Test Year Ending									
Customer Classification	Consumption In Gallons	Service Units	Settlement Usage Charge per 1,000 gallons	Settlement Facility Charge (BFC)	Settlement Calculated Revenues	Test Year Revenue Summary	Increase Amount	% Increase from Present Rate	
Residential Water	95,898,136	16,704	\$3,5500	\$11.09	\$525,886				
Residential Water Dist	341,097,831	65,431	\$2,0300	\$11.09	\$1,418,058				
1" Com Water	13,170	12	\$3,5500	\$29.02	\$395				
1" Com Water Dist	5,858,302	283	\$2,0300	\$29.02	\$19,525				
1 1/2" Com Water	0	0	\$3,5500	\$0.00	\$0				
1 1/2" Com Water Dist	4,856,133	144	\$2,0300	\$58.04	\$18,212				
2" Com Water Dist	18,784,659	329	\$2,0300	\$92.98	\$68,694				
3" Com Water	0	0	\$3,5500	\$0.00	\$0				
3" Com Water Dist	6,227,860	60	\$2,0300	\$174.12	\$23,060				
4" Com Water	0	0	\$3,5500	\$290.20	\$0				
Total Water Service Revenue at Proposed Rates	472,735,091	82,943			\$2,073,651	\$1,927,522	\$146,129	7.58%	
Gas Sewer	0	92,778	\$0,0000	\$39.00	\$3,618,342				
Mobile Home Sewer	0	954	\$0,0000	\$27.77	\$26,493				
Vainardsdale/Madlands	0	4,992	\$0,0000	\$16.53	\$82,518				
Gas Sewer Col	0	39,139	\$0,0000	\$25.70	\$1,005,872				
Total Sewer Service Revenue at Proposed Rates	0	137,863			\$4,733,225	\$4,401,139	\$332,086	7.55%	
Total Water & Sewer Service Revenue at Proposed Rates	472,735,091	220,806			\$6,806,876	\$6,328,661	\$478,215	7.59%	

Exhibit DMH-6

Carolina Water Service, Inc.
2006-92-WS
Rate Comparison

EXHIBIT DMH - 6

Water

Customer Classification	Description	Unit of Measure	Present Charge	Settlement Proposed Charge	Change from Present Rates	% Change
Residential Water	Base Facilities Charge for single family house, condo, mobile home, apartment unit	per unit	\$10.25	\$11.09	\$0.84	8.20%
Commodity Charge	Commodity Charge for all customer classes provided water from CWS	per 1,000 gal	\$3.32	\$3.35	\$0.23	6.93%
5/8" Commercial Water	Base Facilities Charge for hotels, stores, restaurants, offices, industry	per unit	\$10.25	\$11.09	\$0.84	8.20%
1" Commercial Water	Base Facilities Charge for hotels, stores, restaurants, offices, industry	per unit	\$25.62	\$29.02	\$3.40	13.27%
1 1/2" Commercial Water	Base Facilities Charge for hotels, stores, restaurants, offices, industry	per unit	\$51.25	\$58.04	\$6.79	13.25%
2" Commercial Water	Base Facilities Charge for hotels, stores, restaurants, offices, industry	per unit	\$82.00	\$92.86	\$10.86	13.24%
3" Commercial Water	Base Facilities Charge for hotels, stores, restaurants, offices, industry	per unit	\$164.00	\$174.12	\$10.12	6.17%
4" Commercial Water	Base Facilities Charge for hotels, stores, restaurants, offices, industry	per unit	\$256.25	\$290.20	\$33.95	13.25%
Residential Water - Distribution	Base Facilities Charge for single family house, condo, mobile home, apartment unit	per unit	\$10.25	\$11.09	\$0.84	8.20%
Commodity Charge - Distribution	Commodity Charge for all customer classes provided water distribution from CWS	per 1,000 gal	\$1.90	\$2.03	\$0.13	6.84%
Pass-Through Water Supply Charge	Water Supply Charge from third party provider	per 1,000 gal	Varies	Varies	Varies	Varies
5/8" Commercial Water - Distribution	Base Facilities Charge for hotels, stores, restaurants, offices, industry	per unit	\$10.25	\$11.09	\$0.84	8.20%
1" Commercial Water - Distribution	Base Facilities Charge for hotels, stores, restaurants, offices, industry	per unit	\$25.62	\$29.02	\$3.40	13.27%
1 1/2" Commercial Water - Distribution	Base Facilities Charge for hotels, stores, restaurants, offices, industry	per unit	\$51.25	\$58.04	\$6.79	13.25%
2" Commercial Water - Distribution	Base Facilities Charge for hotels, stores, restaurants, offices, industry	per unit	\$82.00	\$92.86	\$10.86	13.24%
3" Commercial Water - Distribution	Base Facilities Charge for hotels, stores, restaurants, offices, industry	per unit	\$164.00	\$174.12	\$10.12	6.17%
4" Commercial Water - Distribution	Base Facilities Charge for hotels, stores, restaurants, offices, industry	per unit	\$256.25	\$290.20	\$33.95	13.25%
Residential/Commercial	Water Service Connection Fee	per SFE	\$300.00	\$300.00	\$0.00	0.00%
Residential/Commercial	Plant Impact Fee	per SFE	\$400.00	\$400.00	\$0.00	0.00%
Residential/Commercial	Account Set-up Fee	per Customer	\$13.50	\$13.50	\$0.00	0.00%
Residential/Commercial	Reconnection Fee	per Occurrence	\$35.00	\$35.00	\$0.00	0.00%

Carolina Water Service, Inc.
2006-92-WS
Rate Comparison

EXHIBIT DMH - 6

Sewer

Customer Classification	Description	Unit of Measure	Present Charge	Proposed Charge	Change from Present Rates	% Change
Residential Sewer	Base Facilities Charge for single family house, condo, villa, apartment unit	per unit	\$36.46	\$39.00	\$2.54	6.97%
Mobile Home Sewer	Base Facilities Charge for mobile homes	per unit	\$26.20	\$27.77	\$1.57	5.99%
Commercial Sewer	Base Facilities Charge for hotels, stores, restaurants, offices, industry	per SFE	\$36.46	\$39.00	\$2.54	6.97%
Residential Sewer - Collection	Base Facilities Charge for single family house, condo, villa, apartment unit	per unit	\$23.47	\$25.70	\$2.23	9.50%
Commercial Sewer - Collection	Base Facilities Charge for hotels, stores, restaurants, offices, industry	per SFE	\$23.47	\$25.70	\$2.23	9.50%
Wholesale Sewer - Midland's Utility, Inc.	Wholesale sewer treatment for Midland's Utility, Inc. Varnhardsdale subdivision	per SFE	\$15.00	\$16.53	\$1.53	10.20%
Pass-Through Sewer Treatment Charge	Sewer Treatment Charge from third party provider	per 1,000 gal	Varies	Varies	Varies	Varies
Residential/Commercial	Sewer Service Connection Fee	Per SFE	\$300.00	\$300.00	\$0.00	0.00%
Residential/Commercial	Plant Impact Fee	Per SFE	\$400.00	\$400.00	\$0.00	0.00%
Residential/Commercial	Account Set-up Fee	Per Customer	\$13.50	\$13.50	\$0.00	0.00%
Residential/Commercial	Reconnection w/o elder valve	Per Occurrence	\$250.00	\$250.00	\$0.00	0.00%
Residential/Commercial	Reconnection w/ elder valve	Per Occurrence	\$35.00	\$35.00	\$0.00	0.00%
Residential/Commercial	Notification fee for service disconnection	Per Occurrence	\$4.00	\$4.00	\$0.00	0.00%

**BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2006-92-W/S**

IN RE:

Application of Carolina Water Service,
Inc. for adjustment of rates and charges
for the provision of water and
sewer service.

**REBUTTAL TESTIMONY
OF BRUCE T. HAAS**

1 **Q. ARE YOU THE SAME BRUCE T. HAAS THAT HAS PREFILED DIRECT**
2 **TESTIMONY IN THIS CASE?**

3 **A. Yes, I am.**

4

5 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY IN THIS**
6 **PROCEEDING, MR. HAAS?**

7 **A. The purpose of my rebuttal testimony is to address the comments our customers**
8 **made during the night hearings in this matter.**

9

10 **Q. DO YOU HAVE ANY COMMENTS CONCERNING CUSTOMER TESTIMONY**
11 **THAT CWS DOES NOT PROVIDE ADJUSTMENTS FOR WATER LEAKS AT**
12 **CUSTOMER PREMESIS?**

13 **A. Yes. A few customers at the night hearings stated that they were unable to obtain**
14 **an adjustment on their water bills from the Company when they experienced higher than**

1 average water usage because of a leak or other unintended water loss. In the situations
2 that were described, CWS provided these customers with water it purchased from bulk
3 suppliers. By contract, CWS is required to pay for the water it receives from these
4 suppliers. While CWS does work with customers to assist in detecting leaks and advising
5 customers how to be aware of unintended water usage, CWS is not able to provide such
6 customers adjustments in situations of this type. If it were to do so, CWS would be
7 required to spread the cost of the purchased water that such customers cause to all of our
8 other customers. For instance, at the York County hearing, Mr. Robert Stuck testified that
9 he experienced a leak in his decorative pool. Mr. Stuck's bill during the relevant period
10 of time reflects that 262,900 gallons of water were metered at his premises during that
11 month. If the Company had allowed an adjustment to his bill, the approximate cost of
12 \$857 to purchase that water from York County would have to be absorbed by the
13 Company. Therefore, the entire customer base would be forced to finance the cost
14 associated with an individual customer's leak or other unintended water usage. As I
15 understand it, Commission Regulation 103-742 places on customers the burden of
16 maintaining their service lines and plumbing so that any loss of water through leakage is
17 kept to a reasonably small amount. The Company's policy of not giving leak adjustments
18 is consistent with the Commission's regulation and recognizes the fact that "courtesy
19 adjustments" by the Company itself would result in water costs going unrecovered.

20
21 **Q. DO YOU HAVE ANY COMMENTS CONCERNING THE AESTHETIC**
22 **QUALITY OF THE WATER PROVIDED BY CWS?**

1 **A.** Yes. First, let me say that many of the customers that complained about water
2 quality live in subdivisions where CWS purchases water from a bulk water supplier. One
3 of the reasons the Commission found to support bulk water arrangements in its Order No.
4 93-402 in Docket No. 91-641-W/S, which was a CWS rate case, was that elimination of
5 ground water would reduce aesthetic water quality complaints. I believe that the number
6 of aesthetic water quality complaints has been reduced where we have bulk service
7 arrangements. In situations where the Company uses purchased water, CWS maintains
8 and operates the distribution system, and purchases the water from the bulk supplier.
9 CWS does not treat or filter the bulk water in these cases and, therefore, any quality
10 issues would originate with the bulk supplier. When the Company does receive quality
11 complaints in these situations, CWS contacts the supplier in an effort to remedy the
12 problem.

13 In other circumstances, the customers' water is supplied from wells. As the
14 Commission is well aware, groundwater taken from wells can have mineral content
15 characteristics that often cause the water to be discolored and can result in deposits on
16 plumbing fixtures and appliances. Discoloration can lead to staining of clothes, plumbing
17 fixtures and appliances. Filtration at the well and at the customer premises may alleviate
18 the problem, but these are high cost and high maintenance solutions for both the utility
19 and the customer.

20
21 **Q. DO YOU HAVE ANY COMMENTS REGARDING COMMENTS MADE AT THE**
22 **HEARING HELD IN IRMO, SOUTH CAROLINA?**

1 A. Yes, I do. One of our customers at this night hearing, Ms. Yvonne Ross, stated that there
2 was a sewage tank at the front entrance to the Stonegate subdivision, which contains
3 waste and "has at times an unbearable odor." While CWS does provide sewer collection
4 service for this area, Richland County is the bulk sewer provider for that subdivision and
5 the tank Ms. Ross referred to, is in fact owned and operated by Richland County.
6 Therefore, CWS does not have control over the tank in question.

7
8 Q. **DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

9 A. Yes, it does.

**BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2006-92-WS**

IN RE:

Application of Carolina Water Service,
Inc. for adjustment of rates and charges
for the provision of water and
sewer service.

**REBUTTAL TESTIMONY
OF
STEVEN M. LUBERTOZZI**

**Q. ARE YOU THE SAME STEVEN M. LUBERTOZZI WHO HAS CAUSED TO BE
PRE-FILED DIRECT TESTIMONY IN THIS PROCEEDING ON BEHALF OF
THE APPLICANT, CAROLINA WATER SERVICE, INC.?**

A. Yes, I am.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

**A. The purpose of my rebuttal testimony is to address certain comments our customers made
during the night hearings in this matter.**

**Q. MR. LUBERTOZZI, WHAT IS THE COMPANY'S RESPONSE TO THE
ASSERTION BY RIVER HILLS CUSTOMERS THAT THEIR RATES ARE
CURRENTLY "EXCESSIVE" AND THAT THE REQUEST FOR RATE RELIEF
SHOULD BE DENIED FOR THAT REASON?**

**A. The Commission should view this assertion in its proper context. The River Hills
Community Association complained for many years about the quality of the well water**

1 that had been supplied since the inception of the system by the developer in 1977. As the
2 Commission is aware, groundwater taken from wells can have mineral content
3 characteristics that often cause the water to be discolored. This was the case in River
4 Hills, and, as a result, the customers and the River Hills Community Association began to
5 request that we obtain bulk water from a surface treatment source. The customers also
6 expressed a desire for the Company to eliminate the wastewater discharge into Lake
7 Wylie from our wastewater treatment plant in River Hills. At the time, York County had
8 not yet commenced construction of a county-wide system, but was willing to include bulk
9 service lines and mains to serve River Hills in its plans only if the Company would
10 purchase both bulk water and sewer. Therefore, in 1992, and at the urging of the River
11 Hills Community Association, the Company entered into an agreement to purchase bulk
12 water and sewer service from York County when it completed construction of its county-
13 wide water and sewer systems. This agreement was approved by the Commission on
14 July 10, 1992 in its Order Number 92-537 in Docket Number 92-123-W/S. In fact, the
15 Commission has directed CWS to implement bulk water arrangements whenever
16 possible. In its Order No. 93-402, dated May 11, 1993, in Docket No. 91-641-W/S, the
17 Commission directed the Company "to take all necessary steps to enter into bulk water
18 arrangements", finding that it "anticipates that there will be no complaints about water
19 quality at future proceedings where a supply of water is available."

20
21 **Q. HAS THE RIVER HILLS COMMUNITY ASSOCIATION SUPPORTED THE**
22 **ARRANGEMENT WITH YORK COUNTY SINCE THAT TIME?**

1 A. Not on a consistent basis. After the interconnection was completed, the Company
2 applied to the Commission to put into effect in River Hills our previously approved tariff
3 provisions under which we reduce our rates, but add on and pass through, without
4 markup to our customers, the bulk charges imposed by governmental utility service
5 providers. Even though it had urged the Company to interconnect with York County and
6 supported the agreement approved by the Commission in 1992, the River Hills
7 Community Association actually intervened in the 1996 proceeding when we sought to
8 implement the pass-through rate structure with respect to York County's bulk service
9 charges. When it became clear that the Company could be relieved of its obligations to
10 purchase surface treated water from York County if the Commission were to not approve
11 the pass-through rate structure in River Hills, and knowing what the rates would be if the
12 Company interconnected with York County yet desiring an interconnection for surface
13 water from York County, the River Hills Community Association, YMCA Camp
14 Thunderbird, and other customers withdrew their opposition. The application was
15 approved by the Commission in its Order Number 96-590, which was issued on August
16 26, 1996 in Docket Number 96-040-W/S. In its motion to withdraw its intervention, in
17 that docket, the River Hills Community Association acknowledged that the effect of the
18 York County pass-through would be a higher overall service bill, but indicated that it
19 preferred to have the bulk water service that the agreement between the Company and
20 York County insured.

1 **Q. DID THAT RESOLVE THE MATTER WITH THE RIVER HILLS**
2 **COMMUNITY ASSOCIATION?**

3 **A.** Unfortunately, no. In 1997, the River Hills Community Association and other
4 customers filed a complaint with the Commission seeking to have our rates reduced. We
5 defended against the complaint, in part on the grounds that the complainants had all been
6 well aware of the rate structure when the Company's agreement with York County was
7 approved by the Commission in 1992 and when the rate structure was implemented in
8 1996. The Commission issued two orders in the 1997 complaint case in which it did not
9 find that our rates were unjust or unreasonable. The Commission did, however, direct us
10 to cap sewer charges for residential customers in River Hills at 10,500 gallons of water
11 consumed on a monthly basis. The Commission found, based upon the arguments
12 advanced by the customers, that much of the water that they consumed was not returned
13 to the wastewater treatment system but was dispersed in the course of various outdoor
14 activities – primarily landscaping irrigation.

15 **Q. WHAT HAPPENED AFTER THAT?**

16 **A.** We appealed the Commission's orders to the Circuit Court and continued to
17 charge the previously approved rates under bond. The case was ultimately settled while
18 on appeal. In its Order Number 1999-245 in Docket Number 97-464-W/S dated April 2,
19 1999, the Commission rescinded its prior two orders requiring a sewer rate cap. In
20 exchange, the Company agreed to permanently waive plant impact and connection fees
21 totaling \$500 for any residential customer in River Hills Subdivision that desired to
22 install an irrigation meter. We also agreed to provide the irrigation meter to the customer

1 at no charge and to provide a meter box at our cost. Under the terms of this settlement,
2 customers are responsible for installation of the meters.
3

4 **Q. IN ADDITION TO THE SAVINGS THAT CUSTOMERS REALIZE FROM NOT**
5 **HAVING TO PAY THE PLANT IMPACT FEE, THE CONNECTION FEE, AND**
6 **THE COST OF A METER, DID THE CUSTOMERS IN RIVER HILLS REALIZE**
7 **ANY OTHER BENEFITS FROM THIS SETTLEMENT?**

8 **A.** Yes. As the Commission pointed out in its order, the settlement provided
9 customers an opportunity to reduce their sewerage charges by reducing water
10 consumption through their regular residential meter. In addition to these benefits, under
11 the terms of the 1992 bulk service agreement between the Company and York County, a
12 tap fee cannot be charged by York County for installation of an irrigation meter in River
13 Hills. So, in effect, for the cost of having a meter installed, the customers in River Hills
14 can greatly reduce their sewer bills.
15

16 **Q. WAS RIVER HILLS COMMUNITY ASSOCIATION ALLOWED TO HAVE**
17 **INPUT INTO THE TERMS OF THIS SETTLEMENT?**

18 **A.** Absolutely. It was represented by counsel and the settlement was submitted to the
19 Association for its review – even though it was not a party to the appeal. In fact, Mr. Bob
20 Harrington, who was then the Director of Utilities for River Hills Community
21 Association, submitted comments to the Commission regarding the terms of the
22 settlement which were incorporated therein.

1
2 **Q. GIVEN THIS EXTENSIVE HISTORY, IN YOUR OPINION, SHOULD THE**
3 **COMMISSION TAKE INTO ACCOUNT THE CUSTOMERS' COMPLAINTS**
4 **THAT RATES ARE TOO HIGH?**

5 **A.** In the complaint proceedings I mentioned earlier, a number of organizations we serve in
6 York County, including RHCA, complained that our service rates were too high and
7 should be reduced by the Commission. In fact, the Commission, in Order Number 98-
8 384, acknowledged the Staff's testimony that the increase in service rates was attributable
9 to York County's increase in bulk rates. The Commission effectively rejected RHCA's
10 claim in that regard since it never ordered any change in our service rates in any of the
11 orders in that docket. In the 2000 rate case and again in our last rate case, RHCA and
12 individual River Hills customers again asserted that the Company's rates were "too high"
13 to justify an increase and the Commission, again, did not accept that argument. It should
14 reject that argument again. There is no basis for denying rate relief simply because
15 customers think rates are too high. And, given the impact of York County bulk rates,
16 reliance upon subjective customer comments to determine the Commission's decision
17 would not result in a determination of just and reasonable rates.

18
19 **Q. SEVERAL CUSTOMERS STATED TO THE COMMISSION THAT THE**
20 **COMPANY'S RATES ARE OUT OF PROPORTION TO RATES THAT THEY**
21 **ARE CHARGED IN OTHER JURISDICTIONS; WOULD YOU PLEASE**
22 **COMMENT ON THAT?**

1 **A.** Yes. We do not believe that it would be appropriate for the Commission to set
2 our rates based upon what some other entity may have charged to a customer. Even were
3 it appropriate, the Commission has no real basis upon which to make the necessary
4 comparison in this case. For example, many of the customers commenting failed to state
5 whether the other entities from whom they had purchased utility services were
6 governmental or private in nature. This makes a tremendous difference since
7 governmental entities have the ability to raise "cost-free" revenue by way of property
8 taxes. And, to the extent that they have to borrow money, most governmental entities
9 having bonding capacity which allows them to acquire debt capital at a much lower cost
10 than that which a private entity incurs in commercial capital markets. Also,
11 governmental entities have no obligation to their shareholders to make a profit, nor do
12 they pay any taxes. So, rates charged by governmental entities should be lower than
13 those of a private entity. Also, the Commission has no frame of reference regarding the
14 customer's usage patterns in other locations or the proximity of service sources to the
15 customers. Some of these customers may have been served by a governmental entity
16 whose facilities were in close proximity to the customer base.

17
18 **Q. WHY DOES THE PROXIMITY OF THE SERVING FACILITIES TO THE**
19 **CUSTOMER BASE HAVE A BEARING?**

20 **A.** If you can reduce the distance between the service point and the service source,
21 the underlying capital costs associated with transportation of water and sewer are
22 lowered. You can see the cause and effect component of this in the current bulk service

1 arrangement that the Company has with York County. York County gets its water from
2 the City of Rock Hill facilities and gets its sewer treatment from the City of Rock Hill
3 facility. The Company in turn gets its bulk service from York County for both water and
4 sewer. So, both the incoming water and the outgoing sewer have to travel quite a
5 distance. This is one of the reasons that York County's bulk rates to the Company are as
6 high as they are.

7
8 **Q. DO YOU HAVE ANY COMMENTS REGARDING MR. DON LONG'S**
9 **ASSERTION THAT THE RATES CHARGED TO THE RIVER HILLS**
10 **CUSTOMERS ARE "SUBSIDIZING THE REMAINDER OF THE [CWS]**
11 **WATER AND SEWER SYSTEMS ACROSS SOUTH CAROLINA"?**

12 **A.** Yes, I do. This is simply an inaccurate statement. In 1997, the River Hills Community
13 Association and others filed a complaint case in which one of the primary points that the
14 Company made was that the River Hills system was part of a statewide system. In fact,
15 in his testimony in that proceeding, then Commission Deputy Executive Director Walsh
16 agreed with the Company and stated that the Company's system is a statewide system.
17 Moreover, the Commission's regulations adopting the Uniform System of Accounts for
18 water and sewer utilities, which are R. 103.517 and R. 103-719, do not provide for
19 accounting of systems on a subdivision or county franchise area basis. The Company has
20 never accounted for the River Hills system except as part of our statewide system.

21
22 **Q. MR. LUBERTOZZI, WHAT WOULD HAPPEN IF THE COMMISSION WERE**

1 **TO REGULATE THE COMPANY AND SET RATES ON A SUBDIVISION OR**
2 **GEOGRAPHIC BASIS?**

3 A. To do so would mean that uniform rates would have to be abandoned. This, in turn,
4 would lead to chaos for the Commission, ORS, the customers and the Company. If each
5 subdivision or other geographic area served by the Company had to be accounted for and
6 have its rates set based solely upon facilities serving that area, rate base would have to be
7 established in each such subdivision or area, which would be a monumental and
8 expensive task.

9
10 Even assuming that ORS could obtain such original cost information for the facilities
11 serving distinct subdivisions or geographical areas, it would then have to determine what
12 rates would be charged to the customer groups served by these facilities. This would be a
13 Herculean effort that would lead to wildly disparate rates among various groups of
14 customers and different rates in just about every area. For those customers served by
15 newer facilities, the rates would increase dramatically, while customers served by older
16 facilities would see much lower rates. In addition to the significant dissatisfaction that
17 would be expressed by customers in the areas in which rates would increase, the time and
18 effort demanded of the Commission and ORS to administer rate structures that would be
19 different for each such area would increase significantly. It is likely that the Company
20 would also have to employ additional personnel to deal with differing rate structures for
21 each such area. The Commission, ORS and the Company would constantly be subjected
22 to customer demands that the rates in higher cost areas be adjusted to the levels of the

1 Company's customers in lower cost areas.

2
3 **Q. DO YOU HAVE ANY COMMENTS REGARDING MR. LONG'S REQUEST FOR**
4 **FINANCIAL DATA ON A SUBDIVISION BASIS?**

5 **A.** Yes, I do. ORS transmitted to the Company a request from third parties for
6 financial data regarding only the River Hills subdivision in late 2005, some three months
7 before any rate case was filed. However, the Company was not aware of any request for
8 financial data for each subdivision served by the Company until approximately May 8,
9 2006, when the Company received a copy of the petition of the York County delegation.

10 Additionally, I respectfully submit that the Company is under no obligation to
11 provide such documentation in this matter. The parties of record in this case have not
12 presented, nor sought to present, evidence pertaining to the establishment of rates by
13 subdivision as discussed by Mr. Long and others. Although certain customers and third
14 parties have asserted that, prior to the rate case, they requested information from CWS
15 regarding the Company's return on rate base for the Riverhills System through ORS,
16 those customers and the third parties are not parties of record in this case. As the
17 Commission is aware, some of these customers and third parties also erroneously asserted
18 at a night hearing in this matter that the information they sought prior to the rate case
19 filing was requested through the Commission and those customers and third parties
20 unfairly and improperly criticized and threatened the Commission in connection with that
21 assertion.

1 Moreover, I would note that the Company does not have in its possession
2 documents which would provide the information in the format requested by the Riverhills
3 customers. Because CWS applies its rate revenues to its statewide facilities that are used
4 and useful in providing water and sewer service in some ten (10) different counties and
5 ninety six (96) residential subdivisions, CWS maintains records on a statewide basis.
6 This manner and method of accounting for our systems is in compliance with the South
7 Carolina Supreme Court's decision in August Kohn and Co., Inc. v. Public Service
8 Commission and Carolina Water Service, Inc. Nor is CWS aware of any regulation of
9 the Commission which requires that it maintain records in a manner which would require
10 recordation of the information sought by the Riverhills customers.

11
12 **Q. WHAT IS YOUR OPINION OF MR. LONG'S FINANCIAL ASSESSMENT OF**
13 **THE SYSTEM SERVING THE RIVER HILLS SUBDIVISION?**

14 **A.** Mr. Long stated at the night hearing that he developed what he believed was a
15 "reasonable and supportable set of conclusions about the status of water and sewer
16 service in the Lake Wylie Franchise district, including what appears to be the proposed
17 rate base rate of return for CWS within this District." He states the data sources he used
18 are the CWS application in this docket, CWS's York County property tax bill, the map of
19 Lake Wylie Franchise District boundaries, counts of the number of homes in subdivisions
20 served by CWS, water and sewer schedules from other water and sewer providers, and a
21 sampling of bills for CWS's water and sewer service in this district. As a result of that
22 analysis, Mr. Long states that CWS is earning a rate of return on rate base of

1 approximately 39% for the Lake Wylie Franchise District. Simply put, the assessment is
2 wholly inaccurate.
3

4 **Q. WHY DO YOU BELIEVE HIS ANALYSIS IS INACCURATE?**

5 **A.** First, Mr. Long states that he utilized the CWS application in formulating this
6 assessment. As I discussed earlier, CWS is not required, it is not feasible, and the
7 Commission has declined to require the Company to maintain its financial records on a
8 subdivision basis. Simply using the information included in the application cannot
9 account for the difference in assets and expenses for each system. As well, Mr. Long, in
10 his own testimony, stated that he utilized the South Carolina Department of Revenue's
11 property tax valuation. The depreciated plant in service shown on that form reflects tax
12 depreciation and, it should be readily apparent that the calculated depreciation for tax
13 purposes is much greater than regulatory depreciation. Therefore, Mr. Long's
14 calculations significantly undervalue the plant serving the River Hills subdivision, in
15 turn, directly inflating his assessment of the relative earnings of that system. Such
16 inaccurate estimations cannot be seriously considered for regulatory rate making
17 purposes and should be dismissed by the Commission.
18

19 **Q. DOES THIS CONCLUDE YOUR TESTIMONY AT THIS TIME?**

20 **A.** Yes, it does.

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2006-92-WS

IN RE:)
)
Application of Carolina Water Service,)
Inc. for adjustment of rates and charges)
for the provision of water and)
sewer service.)
_____)

SETTLEMENT TESTIMONY
OF CONVERSE A. CHELLIS, III

1 **Q. PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS ADDRESS.**

2 A. My name is Converse A. Chellis, III. I am a Certified Public Accountant ("CPA")
3 and a principal in and the Director of Litigation Services and Property Tax Services for
4 Gamble Givens & Moody, LLC, a public accounting firm with offices in Charleston, Kiawah
5 Island, and Summerville, South Carolina. My office is located at 133 East First North Street,
6 Suite 9, Summerville, South Carolina 29483.

7 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.**

8 A. In 1965, I graduated from The Citadel, The Military College of South Carolina with a
9 bachelor's degree in business administration. I also have completed graduate level courses in
10 accounting at the University of Georgia. In addition, I have had a minimum of forty (40)
11 hours of continuing professional education ("CPE") each year since 1969, for a total of at
12 least 1,440 total CPE hours.

1 Q. PLEASE DESCRIBE YOUR WORK HISTORY AND PROFESSIONAL
2 EXPERIENCE PRIOR TO YOUR CURRENT POSITION.

3 A. Upon graduation from The Citadel in 1966, I served in the United States Air Force
4 and was assigned to the Auditor General's staff. In 1969, I joined Touche Ross (now
5 Deloitte and Touche) and was a senior accountant. I formed Chellis and Chellis in 1972, and
6 have been a name partner and managing partner in several accounting firms until 1998. In
7 1999, I merged my firm with Gamble Givens & Moody, where I am a principal and Director
8 of Litigation Services.

9 Q. ARE YOU A MEMBER OF ANY PROFESSIONAL ASSOCIATIONS?

10 A. Yes. I am a member of the American Institute of Certified Public Accountants
11 ("AICPA"). From 1983-1985, I served on AICPA's continuing education executive
12 committee, and in 1985 I served on the AICPA council.

13 I am also a member of the South Carolina Association of Certified Public
14 Accountants ("SCACPA"). I served as Vice-President of the SCACPA's Coastal Chapter in
15 1977-78 and as President in 1978-79. In 1985 I served as the State President of the
16 SCACPA, having previously served on the state level as Vice-President, Secretary/Treasurer,
17 and Director. I have also been Chairman of the SCACPA's Committee on Continuing
18 Professional Education, Chairman and trustee for the SCACPA's educational fund, and
19 Chairman of the SCACPA's Committee on Cooperation with Governmental Agencies.

20 From 1986-1994, I was a member of the State Board of Accountancy, where I served
21 as Secretary/Treasurer from 1988-1990 and Chairman from 1990-1993.

1 From 1982-1998, I was a member of Accounting Firms Associates, Inc. I am also a
2 past member of the American Society of Appraisers and a current member of the American
3 College of Forensic Examiners. In addition, I am a past associate in the Municipal Finance
4 Officers Association, and I have held various offices in the National Association of
5 Accountants. I am also active in the peer review process, which involves examination of the
6 work of other accountants and accounting firms to assure that quality controls are being
7 applied in conformance with the Quality Control Standards adopted by the AICPA.

8 **Q. HAVE YOU EVER GIVEN ANY PRESENTATIONS TO OTHER ACCOUNTANTS**
9 **OR AUDITORS?**

10 A. Yes. I have been a speaker and an instructor for the accounting profession on a
11 number of accounting topics, including topics related to generally accepted accounting
12 principles ("GAAP").

13 **Q. HAVE YOU EVER BEEN QUALIFIED AS AN EXPERT WITNESS IN A SOUTH**
14 **CAROLINA COURT?**

15 A. Yes. I have been qualified as an expert witness in both the circuit and family courts
16 of South Carolina. I have also given testimony before this Commission and other
17 administrative agencies.

18 **Q. WHAT IS THE PURPOSE OF YOUR SETTLEMENT TESTIMONY?**

19 A. The purpose of my settlement testimony is to support the adoption of the Settlement
20 Agreement reached between Carolina Water Service, Inc., or "CWS", and the South Carolina
21 Office of Regulatory Staff, or "ORS", in this case.

1 **Q. IN YOUR OPINION, IS THE SETTLEMENT AGREEMENT A REASONABLE**
2 **MEANS OF RESOLVING THE ISSUES IN THIS CASE?**

3 **A. Yes, it is.**

4 **Q. WHAT IS THE BASIS FOR YOUR OPINION IN THIS REGARD?**

5 **A. I have several reasons for believing that the Settlement Agreement is a reasonable**
6 means by which to resolve the disputed issues in this case. First, one of the statutory duties
7 of ORS is to facilitate the resolution of disputed issues involving matters within the
8 jurisdiction of the Commission. I think it incumbent upon the other parties in cases before
9 the Commission, which in this proceeding is only CWS, to work with ORS in good faith in
10 an attempt to reach a settlement. I believe that the Settlement Agreement reflects a good
11 faith effort on the part of ORS and CWS to meet their respective obligations in that regard.

12 Second, and as Dr. Skelton mentions in his testimony in support of the Settlement
13 Agreement, capital markets recognize the value of settlements in ratemaking cases.
14 Additional investment resulting from favorable capital markets would be an enhancement to
15 economic development in South Carolina which is consistent with the public interest.

16 Third, a settlement brings the matter to an end without delay and the uncertainty of
17 further proceedings; this in turn permits ORS to focus its talents and resources on other
18 matters within its area of responsibility and permits the Company to focus upon the
19 continued improvement and expansion of its facilities and services for the benefit of its
20 customers.

1 In summary, the comprehensive settlement proposed by the parties in my opinion
2 fairly balances the interest of the customers and the Company. I therefore respectfully urge
3 that the Commission approve the Settlement Agreement.

4 **Q. DOES THIS CONCLUDE YOUR SETTLEMENT TESTIMONY?**

5 **A. Yes it does.**

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2006-92-WS

IN RE:)
)
Application of Carolina Water Service,)
Inc. for adjustment of rates and charges)
for the provision of water and)
sewer service.)
_____)

SETTLEMENT TESTIMONY
OF B. R. SKELTON, PhD.

1 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.**

2 **A.** My name is B. R. Skelton and my business address is 2962 Walhalla Highway, Six
3 Mile, South Carolina 29682. I am Professor *Emeritus* of Economics at Clemson University
4 and am engaged in a variety of private business endeavors, including real estate brokerage
5 and residential construction. I also act as a mediator and arbitrator. Since 1974, I have
6 mediated 190+ disputes and written decisions in over 1000 arbitration cases, mostly union-
7 management grievances. I have also arbitrated deferrals from the courts and the NLRB.

8 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND**
9 **PROFESSIONAL EXPERIENCE.**

10 **A.** I received my B.S. degree in Arts & Sciences (History & Economics) from Clemson
11 University in 1956. In 1958, I received a Masters of Science degree in Agricultural
12 Economics from Clemson University. I received my Ph.D. in Economics from Duke
13 University in 1964.

1 From 1959 to 1987, I was a professor of Economics at Clemson except for 1961-63
2 when I was in graduate school at Duke University. In addition to teaching standard economic
3 theory, my academic background includes writing, lecturing and research in the areas of labor
4 economics, economic development and arbitration. While at Clemson, I was a member of
5 the Southern Economics Association and American Economic Association. I was also a
6 member of the Arbitration Panel of the Federal Mediation and Conciliation Service and the
7 American Arbitration Association. I retired from Clemson in 1987.

8 **Q. PLEASE DESCRIBE YOUR WORK IN THE REAL ESTATE FIELD.**

9 **A.**Over time I have developed subdivisions, commercial property, apartments and
10 bought and sold real estate of all types.

11 **Q. DO YOU PROVIDE ANY CONSULTING SERVICES?**

12 **A.**I have served as a consultant to various individuals and companies, mostly wrongful
13 death and injury, divorce, product liability and valuation of business losses. I was President
14 of Economic Research and Consulting Associates prior to 1980, the business that provided
15 this analysis. I have testified before the PSC in one case involving a water company in
16 Oconee County.

17 **Q. DO YOU HOLD ANY OTHER PROFESSIONAL DESIGNATIONS?**

18 **A.**Yes. I am a mediator and arbitrator and am licensed by the State of South Carolina as
19 both a real estate broker and residential contractor. I am also an elected member of the
20 National Academy of Arbitrators and have been a member since 1981.

21 **Q. WHAT IS THE PURPOSE OF YOUR SETTLEMENT TESTIMONY?**

22 **A.**The purpose of my testimony is to provide support for the Settlement Agreement
23 entered into by the parties in the proceeding on August 30, 2006. Specifically, I will be

1 testifying as to the reasons why the 9.40% Return on Equity ("ROE") agreed to by the parties
2 is a reasonable ROE for the Company in the context of a comprehensive settlement of this
3 specific case and why the Commission should approve the proposed settlement.

4 **Q. WHY, IN YOUR OPINION, IS THE SETTLEMENT ROE OF 9.40%**
5 **SUPPORTABLE AS A REASONABLE ROE FOR THE COMPANY IN THE**
6 **CONTEXT OF A COMPREHENSIVE SETTLEMENT AGREEMENT?**

7 A. In the context of the present settlement agreement, which disposes of all issues in the
8 case, rates set based upon a 9.40% ROE can provide investors the opportunity to earn a
9 reasonable return on the Company's capital investment. Based on my knowledge of the
10 capital market, and my understanding of its expectations related to regulated and non-
11 regulated returns in the present economic context, I believe that 9.40% is a sufficient return
12 which the capital market would expect in the context of a comprehensive settlement.

13 **Q. WHY IS A SETTLEMENT IMPORANT TO CAPITAL MARKETS?**

14 A. I believe that investors place great importance on the settlement of litigation disputes
15 involving any industry. I am aware from my experience in mediating and arbitrating labor
16 disputes that the capital markets in general react favorably to the settlement of wage/benefit
17 issues which comprise only one aspect of the overall financial picture for non-regulated
18 industries. Whether utility rate cases are settled or litigated is even more important to
19 investors in the utility industry as these cases involve every aspect of the financial picture of
20 a utility and therefore figure prominently in analysts' reports and evaluations of these cases.
21 The settlement of a rate case is therefore a factor that strongly influences the capital market's
22 assessment of the regulatory climate a utility operates in. The capital market sees settlements
23 as an indication of a cooperative relationship between a utility and its regulators and the other

1 participants in the regulatory process. Given this, I believe that this settlement should be
2 approved.

3 **Q. IN YOUR OPINION, ARE THERE OTHER REASONS WHY THE COMMISSION**
4 **SHOULD APPROVE THE SETTLEMENT PROPOSED BY THE PARTIES IN THIS**
5 **CASE?**

6 A. Yes. I believe that administrative economy supports Commission approval of the
7 proposed settlement and that settlements should be favored since they reflect a solution
8 devised by the parties which is more likely to address their needs.

9 **Q. WOULD YOU ELABORATE ON THAT STATEMENT?**

10 A. Yes. The Commission has scarce resources available to be used in the discharge of its
11 duties. These are important duties which have been delegated to the Commission by the
12 legislature. Settlement of this case will permit the Commission to focus its resources on other
13 matters within its purview. Further, in my experience as a mediator and arbitrator, I have
14 come to understand that part of the value of settling disputed matters is that it results in a
15 resolution more likely to fit the needs and circumstances of the parties than does an imposed
16 resolution. I believe that to be the case here.

17 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

18 A. Yes, it does.
19

EXHIBIT "G" TO SETTLEMENT AGREEMENT
DOCKET NO. 2006-92-WS
PROPOSED RATE SCHEDULE

CAROLINA WATER SERVICE, INC.

SCHEDULE OF RATES AND CHARGES
WATER

1. Monthly Charges

Residential

Base Facilities Charge per single family house, condominium, mobile home or apartment unit: \$ 11.09 per unit

Commodity Charge: \$3.55 per 1,000 gallons or 134 cft

Commercial

Base Facilities Charge
by meter size:

5/8" meter	\$ 11.09
1"	\$ 29.02
1.5"	\$ 58.04
2"	\$ 92.86
3"	\$174.12
4"	\$290.20

Commodity Charge: \$ 3.55 per 1,000 gallons or 134 cft

Charges for Water Distribution Only

Where water is purchased from a government body or agency or other entity for distribution and resale by the Company, the following rates apply:

Residential

Base Facilities Charge per single family house, condominium, mobile home or apartment unit: \$11.09 per unit

Commodity charge: \$2.03 per 1,000

		gallons or 134 cft
<u>Commercial</u>		
Base Facilities Charge		
by meter size:		
5/8" meter		\$ 11.09
1"		\$ 29.02
1.5"		\$ 58.04
2"		\$ 92.86
3"		\$174.12
4"		\$290.20
Commodity charge:		\$2.03 per 1,000 gallons or 134 cft

The Utility will also charge for the cost of water purchased from the government body or agency, or other entity. The charges imposed or charged by the government body or agency, or other entity providing the water supply will be charged to the Utility's affected customers on a pro rata basis without markup. Where the Utility is required by regulatory authority with jurisdiction over the Utility to interconnect to the water supply system of a government body or agency or other entity and tap/connection/impact fees are imposed by that entity, such tap/connection/impact fees will also be charged to the Utility's affected customers on a pro rata basis, without markup.

Commercial customers are those not included in the residential category above and include, but are not limited to hotels, stores, restaurants, offices, industry, etc.

The Utility will, for the convenience of the owner, bill a tenant in a multi-unit building, consisting of four or more residential units (or in such other circumstances as the law may allow from time to time), which is served by a master water meter or a single water connection. However, in such cases all arrearages must be satisfied before service will be provided to a new tenant or before interrupted service will be restored. Failure of an owner to pay for services rendered to a tenant in these circumstances may result in service interruptions.

When, because of the method of water line installation utilized by the developer or owner, it is impractical to meter each unit separately, service will be provided through a single meter, and consumption of all units will be averaged; a bill will be calculated based on that average and the result multiplied by the number of units served by a single meter.

2. Nonrecurring Charges
 - A) Water Service Connection (New connections only) \$300 per SFE*
 - B) Plant Impact Fee (New connections only) \$400 per SFE*
3. Account Set-Up and Reconnection Charges
 - a. Customer Account Charge - for new customers only.
 - b. All Areas \$ 13.50
 - b. Reconnection Charges: In addition to any other charges that may be due, a reconnection fee of thirty five dollars (\$35.00) shall be due prior to the Utility reconnecting service which has been disconnected for any reason set forth in Commission Rule R.103-732.5. Customers who ask to be reconnected within nine months of disconnection will be charged the monthly base facility charge for the service period they were disconnected. The reconnection fee shall also be due prior to reconnection if water service has been disconnected at the request of the customer.
4. Billing Cycle

Recurring charges will be billed monthly in arrears. Nonrecurring charges will be billed and collected in advance of service being provided.
5. Extension of Utility Service Lines and Mains

The Utility shall have no obligation at its expense to extend its utility service lines or mains in order to permit any customer to connect to its water system. However, anyone or any entity which is willing to pay all costs associated with extending an appropriately sized and constructed main or utility service line from his/her/its premises to any appropriate connection point, to pay the appropriate fees and charges set forth in this rate schedule, and comply with the guidelines and standards hereof, shall not be denied service, unless water supply is unavailable or unless the South Carolina Department of Health and Environmental Control or other government entity has restricted the Utility from adding for any reason additional customers to the serving water system. In no event will the Utility be required to construct additional water supply capacity to serve any customer or entity without an agreement acceptable to the Utility first having been reached for the payment of all costs associated with adding water supply capacity to the affected water system.
6. Cross Connection Inspection Fee

Any customer installing, permitting to be installed, or maintaining any cross connection between the Utility's water system and any other non-public water

system, sewer or a line from any container of liquids or other substances, must install an approved back-flow prevention device in accordance with 24A S.C. Code Ann. Regs. R.61-58.7.F.2 (Supp. 2005), as may be amended from time to time. Such a customer shall annually have such cross connection inspected by a licensed certified tester and provide to Utility a copy of a written inspection report and testing results submitted by the certified tester in accordance with 24A S.C. Code Ann. Regs. R.61—58.7.F.8 (Supp. 2005), as may be amended from time to time. Said report and results must be provided by the customer to the Utility no later than June 30th of each year. Should a customer subject to these requirements fail to timely provide such report and results, Utility may arrange for inspection and testing by a licensed certified tester and add the charges incurred by the Utility in that regard to the customer's next bill.

* A Single Family Equivalent (SFE) shall be determined by using the South Carolina Department of Environmental Control Guidelines for Unit Contributory Loadings for Domestic Wastewater Treatment Facilities -- 25 S.C. Code Ann. Regs. 61-67 Appendix A (Supp. 2005), as may be amended from time to time. Where applicable, such guidelines shall be used for determination of the appropriate monthly service and tap fee.

SCHEDULE OF RATES AND CHARGES

SEWER

1. Monthly Charges

Residential - charge per
single-family house, condominium,
villa, or apartment unit:

\$39.00 per unit

Mobile Homes:

\$27.77 per unit

Commercial:

\$39.00 per SFE*

Commercial customers are those not included in the residential category above and include, but are not limited to, hotels, stores, restaurants, offices, industry, etc.

Charge for Sewer Collection Only

When sewage is collected by the Utility and transferred to a government body or agency, or other entity, for treatment, the Utility's rates are as follows:

Residential - per single-family house,
condominium, or apartment unit

\$25.70 per unit

Commercial - per single-family
equivalent

\$25.70 per SFE*

Charge for Wholesale Service (Midlands Utility)

\$16.53 per SFE*

The Utility will also charge for treatment services provided by the government body or agency, or other entity. The rates imposed or charged by the government body or agency, or other, entity providing treatment will be charged to the Utility's affected customers on a pro rata basis, without markup. Where the Utility is required under the terms of a 201/208 Plan, or by other regulatory authority with jurisdiction over the Utility, to interconnect to the sewage treatment system of a government body or agency or other entity and tap/connection/impact fees are imposed by that entity, such tap/connection/impact fees will be charged to the Utility's affected customers on a pro rata basis, without markup.

The Utility will, for the convenience of the owner, bill a tenant in a multi-unit building, consisting of four or more residential units (or in such other circumstances as the law may allow from time to time), which is served by a master sewer meter or a single sewer connection. However, in such cases all arrearages must be satisfied before service will be provided to a new tenant or before interrupted service will be restored. Failure of an owner to pay for services rendered to a tenant in these circumstances may result in service interruptions.

Solids Interceptor Tanks

For all customers receiving sewage collection service through an approved solids interceptor tank, the following additional charges shall apply:

A. Pumping Charge

At such time as the Utility determines through its inspection that excessive solids have accumulated in the interceptor tank, the Utility will arrange for pumping the tank and will include \$150.00 as a separate item in the next regular billing to the customer.

B. Pump Repair or Replacement Charge

If a separate pump is required to transport the customer's sewage from solids interceptor tank to the Utility's sewage collection system, the Utility will arrange to have this pump repaired or replaced as required and will include the cost of such repair or replacement and may be paid for over a one year period.

C. Visual Inspection Port

In order for a customer who uses a solids interceptor tank to receive sewage service from the Utility or to continue to receive such service, the customer shall install at the customer's expense a visual inspection port which will allow for observation of the contents of the solids interceptor tank and extraction of test samples therefrom. Failure to provide such a visual inspection port after timely notice of not less than thirty (30) days shall be just cause for interruption of service until a visual inspection port has been installed.

2. Nonrecurring Charges

- | | | |
|----|---|----------------|
| A) | Sewer Service Connection (New connections only) | \$300 per SFE* |
| B) | Plant Impact Fee (New connections only) | \$400 per SFE* |

The nonrecurring charges listed above are minimum charges and apply even if the equivalency rating of a non residential customer is less than one (1). If the equivalency rating of a non residential customer is greater

than one (1), then the proper charge may be obtained by multiplying the equivalency rating by the appropriate fee. These charges apply and are due at the time new service is applied for, or at the time connection to the sewer system is requested.

3. Notification, Account Set-Up and Reconnection Charges

a. Notification Fee

A fee of four dollars (\$4.00) shall be charged each customer to whom the Utility mails the notice as required by Commission Rule R. 103-535.1 prior to service being discontinued. This fee assesses a portion of the clerical and mailing costs of such notices to the customers creating the cost.

b. Customer Account Charge - for new customers only.

All Areas	\$ 13.50
-----------	----------

A one-time fee to defray the costs of initiating service. This charge will be waived if the customer also takes water service.

c. Reconnection Charges: In addition to any other charges that may be due, a reconnection fee of two hundred fifty dollars (\$250.00) shall be due prior to the Utility reconnecting service which has been disconnected for any reason set forth in Commission Rule R.103-532.4. Where an elder valve has been previously installed, a reconnection charge of thirty-five dollars (\$35.00) shall be due. Customers who ask to be reconnected within nine months of disconnection will be charged the monthly service charge for the service period they were disconnected.

4. Billing Cycle

Recurring charges will be billed monthly, in arrears. Nonrecurring charges will be billed and collected in advance of service being provided.

5. Toxic and Pretreatment Effluent Guidelines

The Utility will not accept or treat any substance or material that has been defined by the United States Environmental Protection Agency ("EPA") or the South Carolina Department of Environmental Control ("DHEC") as a toxic pollutant, hazardous waste, or hazardous substance, including pollutants falling within the provisions of 40 CFR 129.4 and 401.15. Additionally, pollutants or pollutant properties subject to 40 CFR 403.5 and 403.6 are to be processed according to the pretreatment standards applicable to such pollutants or pollutant properties, and such standards constitute the Utility's

minimum pretreatment standards. Any person or entity introducing any such prohibited or untreated materials into the Company's sewer system may have service interrupted without notice until such discharges cease, and shall be liable to the Utility for all damages and costs, including reasonable attorney's fees, incurred by the Utility as a result thereof.

6. Extension of Utility Service Lines and Mains

The Utility shall have no obligation at its expense to extend its utility service lines or mains in order to permit any customer to discharge acceptable wastewater into one of its sewer systems. However, anyone or any entity which is willing to pay all costs associated with extending an appropriately sized and constructed main or utility service line from his/her/its premises to an appropriate connection point, to pay the appropriate fees and charges set forth in this rate schedule and to comply with the guidelines and standards hereof, shall not be denied service, unless treatment capacity is unavailable or unless the South Carolina Department of Health and Environmental Control or other government entity has restricted the Utility from adding for any reason additional customers to the serving sewer system.

In no event will the Utility be required to construct additional wastewater treatment capacity to serve any customer or entity without an agreement acceptable to the Utility first having been reached for the payment of all costs associated with adding wastewater treatment capacity to the affected sewer system.

- * A Single Family Equivalent (SFE) shall be determined by using the South Carolina Department of Environmental Control Guidelines for Unit Contributory Loading for Domestic Wastewater Treatment Facilities --25 S.C. Code Ann. Regs. 61-67 Appendix A (Supp. 2005), as may be amended from time to time. Where applicable, such guidelines shall be used for determination of the appropriate monthly service and tap fee.